Foreign
Broadcast
Information
Service

Daily Report

Supplement

East Asia

FBIS-EAS-90-016-S
Wednesday
24 January 1990

East Asia
SUPPLEMENT
For Official Use Only

FBIS-EAS-90-016-S

CONTENTS

24 January 1990

NOTICE TO READERS: An * indicates material not disseminated in electronic form.

JAPAN

United States

Editorial Examines Challenges Facing Bush *[THE DAILY YOMIURI 21 Jan]* 1
* Article Assesses Ishihara-Morita Book *[ASAHI JOURNAL 22 Dec]* 1
'Evils' of U.S. Restriction of Car Imports *[THE DAILY YOMIURI 20 Jan]* 2
Lifting of Auto Export Restraints to U.S. Urged *[THE DAILY YOMIURI 20 Jan]* 3
Concern Over U.S. Trade Friction Resurfaces *[YOMIURI SHIMBUN 9 Jan]* 4
Economic Relations With U.S. in 1990 Viewed *[THE JAPAN ECONOMIC JOURNAL 13 Jan]* 4
MITI Analyzes Commodity Price Gap With U.S. *[NIHON KEIZAI SHIMBUN 14 Jan]* 5
Editorial on Japan's Help to U.S. Chip Makers *[THE JAPAN TIMES 16 Jan]* 6

Soviet Union

Gorbachev's Remarks on Territories Viewed *[THE JAPAN TIMES 17 Jan]* 7
Paper Interviews Abe on Talks With Gorbachev *[MAINICHI SHIMBUN 17 Jan]* 7
Government To Carry Out Abe Program for USSR *[THE JAPAN TIMES 20 Jan]* 8
Column Voices Concern About LDP-USSR Moves *[THE DAILY YOMIURI 19 Jan]* 8
Editorial Hails Abe's Talks With Gorbachev *[MAINICHI DAILY NEWS 18 Jan]* 9
Columnist on Results of Abe-Gorbachev Talks *[THE DAILY YOMIURI 21 Jan]* 10
Daily Notes Abe USSR Visit Amid Ethnic Unrest *[ASAHI EVENING NEWS 17 Jan]* 11
Daily Says Abe Delegation Achieves Goals *[MAINICHI DAILY NEWS 17 Jan]* 11
USSR's Yeltsin Interviewed on Territories *[MAINICHI SHIMBUN 18 Jan]* 12
Minister, Yeltsin Discuss Joint-USSR Projects *[JIJI]* 14
Yeltsin Comments on Territorial Dispute *[JIJI]* 15
Fanac, Mitsui To Form Maintenance Firm in USSR
  [THE JAPAN ECONOMIC JOURNAL 13 Jan] 15
Daily Urges 'Broad Perspective' in USSR Ties *[MAINICHI DAILY NEWS 19 Jan]* 15
Minolta Sets Up Joint Venture in Soviet Union *[ASAHI SHIMBUN 19 Jan]* 16
Increase in Export of High-Tech Goods to USSR *[NIHON KEIZAI SHIMBUN 20 Jan]* 16

Europe

Kaifu Comments on Results of European Tour *[ASAHI EVENING NEWS 17 Jan]* 17
Editorials View Kaifu Tour of European States 17
    Tour Termed 'Publicity Stunt' *[ASAHI EVENING NEWS 18 Jan]* 17
    Comments Baffle Foreign Ministry *[ASAHI EVENING NEWS 18 Jan]* 18
    Tour Praised as Success *[MAINICHI DAILY NEWS 21 Jan]* 18
    Shift in Policy Focus *[THE JAPAN TIMES 18 Jan]* 19
EC To Accept Proposal To Set Chip Base Prices *[JIJI]* 20
* East Europe Business Venture Environment Changes *[NIHON KEIZAI SHIMBUN 23 Nov]* 20
Inroads Into E. Europe by Japanese Firms Described
  [THE JAPAN ECONOMIC JOURNAL 20 Jan] 21
Paper Calls for Simplifying Cocom Regulations *[NIHON KEIZAI SHIMBUN 9 Jan]* 22
Editorial Urges Comecon To Adapt to Changes *[THE JAPAN TIMES 13 Jan]* 23
MITI To Invite 20 Hungarian Technical Trainees *[YOMIURI SHIMBUN 10 Jan]* 24
Problems Facing Suzuki's Hungarian Venture *[THE DAILY YOMIURI 21 Jan]* 24
Toyota To Export 2,550 Ambulances to Hungary *[YOMIURI SHIMBUN 16 Jan]* 25

China

Editorial on Lifting of Martial Law in Beijing *[THE DAILY YOMIURI 13 Jan]* 26
Business Circles To Resume Endeavors With China *[ASAHI SHIMBUN 10 Jan]* 26
New Organization To Promote Investment in China *[THE JAPAN TIMES 12 Jan]* 27
Work To Resume on PRC Investment Promotion Body *[ASAHI SHIMBUN 11 Jan]* 28
Firms Remain Leery About Investing in PRC *[THE JAPAN ECONOMIC JOURNAL 20 Jan]* 28
Steel Industry Leaders To Meet PRC Counterparts *[NIHON KEIZAI SHIMBUN 11 Jan]* 30
Firms To Sell Steelmaking Equipment to China *[NIHON KEIZAI SHIMBUN 12 Jan]* 30
Tokyo Firm Rushing Shanghai Power Project *[ASAHI SHIMBUN 15 Jan]* 31

Other Countries

Government Works To Strengthen OPEC Ties *[THE JAPAN ECONOMIC JOURNAL 20 Jan]* ... 31
* Foreign Aid Must Be Adaptable To Locale *[SANKEI SHIMBUN 26 Nov]* 32
* Article Warns Against Neo-Nationalism *[BUNGEI SHUNJU Dec]* 34
Daily on Asian Stability as Top Priority Policy *[THE DAILY YOMIURI 13 Jan]* 34

Economic Affairs

MITI Vice Minister Defends Changed Policy *[THE JAPAN ECONOMIC JOURNAL 20 Jan]* 35
* Effects of Japanese Money Invested Worldwide *[NIHON KEIZAI SHIMBUN, 1-8 Nov]* 36
Free Trade, Investment Area Initiative Welcomed *[ASAHI EVENING NEWS 19 Jan]* 46
Editorial on Japan's Role in Asian Economy *[NIHON KEIZAI SHIMBUN 13 Jan]* 47
Editorial Urges Keeping Politics Out of Aid *[THE JAPAN ECONOMIC JOURNAL 20 Jan]* 48
Finance Minister Hashimoto Views Market Movement *[JIJI]* 49
* Survey of Causes for High Consumer Prices
[NIHON KEIZAI SHIMBUN 14, 15, 17, 18, 19 Nov] 49
Deregulation of Distribution System To Speed Up *[THE JAPAN TIMES 20 Jan]* 55
Agriculture Ministry Announces Beef Import Quota *[JIJI]* 55
* Domestic Weapons Production Seen Essential *[GUNJI KENKYU Nov 89]* 56
Defense Agency To Develop Supersonic Jet Engine *[SANKEI SHIMBUN 8 Jan]* 63
GSDF To Reduce Troop Strength in Hokkaido *[YOMIURI SHIMBUN 9 Jan]* 64

National Affairs

* Diet Electoral District Winners Predicted 64
* Heisei Political Showdown Strategies Examined *[NIHON KEIZAI SHIMBUN 28-30 Dec]* 67
'Growing Talk' About Post-Election Cooperation *[JIJI]* 71
Nagasue Rules Out Possibility of Coalition *[THE DAILY YOMIURI 21 Jan]* 72
Farmers Distrust LDP Agricultural Policy *[JIJI]* 73
Kaifu, Abe 'Election-Time Diplomacy' Viewed *[THE JAPAN TIMES 19 Jan]* 74
Kaifu Stresses Party Unity for Election Victory *[THE JAPAN TIMES 21 Jan]* 75
* Kaifu's Job To Halt LDP's Downhill Slide *[ASAHI JOURNAL 29 Dec]* 76
LDP Fund-Raising Efforts for Election Viewed *[ASAHI EVENING NEWS 19 Jan]* 76
Editorial Comments on LDP Political Strategy *[ASAHI EVENING NEWS 20 Jan]* 77
JPS Criticizes Kaifu Remarks on East Europe 78
JCP Airs Views on Abe-Gorbachev Talks *[JPS]* 79
JCP Protests U.S. Jets Flying Over Okinawa *[JPS]* 79
JCP Official on Romanian Decision Outlawing RCP *[JPS]* 80
JCP Welcomes Cancellation of Romanian Referendum *[JPS]* 81
LDP Leaders Frustrating Proposed Naval Cutbacks *[JPS]* 81
JCP Reiterates Need To End U.S. Military Alliance *[JPS]* 81
* Shin Rengo Labor Confederation Described *[SANKEI SHIMBUN 16, 17, 18 Nov]* 83
Editorial Criticizes Attack on Nagasaki Mayor *[MAINICHI DAILY NEWS 20 Jan]* 86
'Radical Attacks' on Imperial Family Viewed *[THE DAILY YOMIURI 11 Jan]* 86
Scientists Confirm Room Temperature Fusion *[ASAHI EVENING NEWS 20 Jan]* 87
U.S. Access to 5th Generation Computer Planned *[NIHON KEIZAI SHIMBUN 15 Jan]* 88

NORTH KOREA

Defecting Students on Possibility of Reform *[SANKEI SHIMBUN 15 Jan]* 89

MONGOLIA

21 Dec Protest Rally in Ulaanbaatar Reported *[London THE INDEPENDENT 22 Jan]* 90

CAMBODIA

Hun Sen on Khmer Rouge Past, Early SRV Contacts
Paris LE NOUVEL OBSERVATEUR 21-27 Dec 91

United States

Editorial Examines Challenges Facing Bush

OW2301083790 Tokyo THE DAILY YOMIURI in English 21 Jan 90 p 6—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 20 January editorial: "Bush's Diplomatic Coups"]

[Text] The administration of U.S. President George Bush enters its second year Saturday.

One year ago, the president said "a new breeze is blowing" and called for a "kinder, gentler America." While doubts could be expressed about the success of Bush's domestic policies, on the diplomatic front he has shown strength and determination.

The U.S.-Soviet summit was held in Malta at Bush's initiative and he was able to assure mutual trust between the two countries, announce the end of the cold war and enter a new age of cooperation.

The Malta summit, coming as it did after the collapse of the Berlin Wall, resulted in a promise of U.S. cooperation with the Soviet Union and laid the groundwork for reductions in strategic arms and for an agreement on conventional arms reduction in Europe. The U.S. support for Soviet perestroyka and democratization in Eastern Europe is a major accomplishment for Bush's foreign policy.

During the year, Bush sent his assistant to China on two occasions—even as he was announcing sanctions in response to China's repression of the democratization movement. He did this to avoid isolating China and to maintain good relations with that country.

Invasion Showed Resolve

The U.S. invasion of Panama late last year was also an example of Bush's intention to create a "strong America."

Bush's realistic diplomacy, based on the interests of the nation, has been effective so far, but there is no guarantee it will be as successful in his second year in office.

The future situations in the Soviet Union and Eastern Europe are especially difficult to predict. Bush will have to try to formulate aid policies toward these countries and help coordinate views toward possible German reunification is expected to give shape to the strategic arms reduction talks in the summit meeting with Soviet President Mikhail Gorbachev in June.

Bush is also expected to play a key role in the economic summit meeting in July. He will have to work out ways to vitalize the world economy and to provide aid to Eastern Europe.

Trouble at Home

There may be trouble for Bush on the home front if his administration cannot come to an agreement with the Congress, which is controlled by the Democratic Party, on reductions in the defense budget and on ways to cut the trade and federal deficits.

We are also worried that Congress may take offensive actions against Japan—especially concerning reduction of the twin deficits.

The Bush administration is said to have a stronger view toward liberalization of the Japanese market that the Reagan administration did. For this reason, and because the administration is said to be weak in relation to the Congress, it is not likely that U.S. pressure on Japan will lessen.

As for U.S. policies in the Asia-Pacific region, Bush needs to not only improve U.S. relations with China, but also to clarify the U.S. strategy for Asia.

We are looking forward to Bush's State of the Union and budget messages to be released at the end of January, and hope they will show how he plans to respond to the many challenges that are now confronting him.

* Article Assesses Ishihara-Morita Book

WA0801024490 Tokyo ASAHI JOURNAL in Japanese 22 Dec 89 p 45—FOR OFFICIAL USE ONLY

[Article by Konomu Ishikawa in the "Window on Cultures" feature: "A Great Nation Cannot Say 'No'—A 'Spirited Book' That Rubbed American Sentiment The Wrong Way"]

[Text] The book "The Japan That Can Say 'No'" consists of a dialogue between Mr. Shintaro Ishihara and Mr. Akio Morita. This book, which was translated by the U.S. Congress without authorization, has caused much controversy. The work is reported to have been made up of individual manuscripts originally prepared for lectures, and was composed skillfully to appear as a dialogue. I sympathize with both authors for the poor results, but at the same time I would like to criticize them for their careless participation.

No remarks that have come out of Japan in recent years have caused so much controversy as theirs contained in this book. One reason is that Mr. Akio Morita, the internationally known "Mr. 'made in Japan'", is one of the authors. Moreover, it is believed that Mr. Ishihara's provocative statements have irked U.S. congressmen.

However, many specialists point out that Mr. Ishihara in particular made numerous technological errors in his statements, and that he is ill-informed. In other words, many of Mr. Ishihara's arguments are considered unfounded, contrary to his spirited remarks. Therefore, these Japanese feel, this book should be treated as a book of meaningless "shouting" and should be ignored. There must be many Japanese who wonder why this book has become an unnecessary source of controversy in the U.S. Congress, and has become a handy target for the Japan bashers.

Furthermore, there may be Japanese who would like to think that the title of the book sounds great, even though they know that Mr. Ishihara's remarks are groundless. This is because Japan has always been saying "yes" to the U.S. since the end of the war.

Whatever the case, the United States is angry. But Japan, on the other hand, feels that the United States is overreacting, and that something must be wrong with the Americans. A feeling of distrust is growing between Japan and the United States in connection with this book.

But why did the U.S. Congress and Americans become upset with this book?

I think the "title" [word underscored for emphasis] of the book caused the controversy. For the United States is a country that cannot say "no." I know people in Japan will object to this assumption and say: "What do you mean? We are told that the people in the United States are accustomed to say 'yes' and 'no' clearly. We are taught a hard and fast rule that when negotiating in the United States, we must be very careful in using these words."

But people in the United States say "yes" and "no" freely only in daily life or in business dealings. The United States cannot say "no" when it comes to a national decisions.

Think for a minute. The United States is always there when there is problem in the world; she delivers food to the hungry, and tries to help even if no one asks her to do so. Moreover, in spite of her heavy debts, the United States wants to assist Eastern Europe, Asia, and Central and South America. Surely there is an element of national "egoism" behind her actions, but the United States is, in principle, destined not to say "no" to whomever needs help.

For the United States, whether she likes it or not, is a world state. A world state has responsibility for the welfare of the world. The world may reject the United States by saying that it does not need her help, and that the United States should mind her own business. But the United States is compelled to help others if asked, even if she is exhausted and beaten. In the process, the United States is sometimes disliked by others because of her actions, but she still cannot say "no" to helping others.

I think, therefore, the United States was angry, and at the same time sad, when she learned that of all nations, a superpower like Japan would say "no" to the United States.

It is clear that as a truly great nation, a world state is destined "not to say 'no.'"

Therefore, the United States wants to know why would a superpower like Japan say "no"? Furthermore, the United States, which knows that a world state cannot say "no," probably wants Japan to learn the rules of great nations now that Japan has become a superpower.

For a true mature adult, just like a great nation, cannot say "no."

'Evils' of U.S. Restriction of Car Imports

OW2101192890 Tokyo THE DAILY YOMIURI in English 20 Jan 90 p 6—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 19 January editorial: "Auto Industry Trade Friction"]

[Text] The Japanese auto industry has been at the center of trade friction between Japan and the United States with auto exports accounting for some 60 percent of Japan's $50 billion trade surplus with the United States.

The monthly U.S. trade deficit rose to $10.4 billion last November due mainly to the appreciation of the dollar against other currencies. It is estimated that the country's external trade deficit will total over $110 billion by the end of fiscal 1989, showing no major improvement from the year before.

The U.S. economy has been slowing down. The auto industry in particular has been hit hard by the trend, prompting Hikaru Matsunaga, minister of international trade and industry, to announce that Japan would automatically extend its voluntary restraints on auto exports to the United States for the 10th year during fiscal 1990.

Under this agreement, Japan can export up to 2.3 million units of cars to the United States per year. But only about 2.05 million cars are expected to cross the Pacific from Japan to the United States by the end of the current fiscal year. This trend is likely to continue.

Auto exports to the United States have been declining over the past three years due to an increase in the number of Japanese cars being made at American plants.

In view of these circumstances, why did the Japanese Government feel the need to extend the voluntary auto export restraints, which have, in effect, become hollow?

The Lesser of Two Evils

If the regulations were abolished, it would evoke further antipathy against Japan among U.S. protectionists. Tightening export limitations could affect other industries and promote government-regulated trade. Apparently the extension was the "choice with the least faults," as a MITI [Ministry of International Trade and Industry] official put it.

The restriction of imports, however, does not solve the trade problems of the United States, and an agreement like this, once imposed, is hard to discontinue.

While under import restrictions, the prices of goods tend to rise. Consumers end up paying the subsidy to support the industry. During the import restraint on Japanese manufacturers, the U.S. automobile industry enjoyed a temporary boom in business.

At the same time, Japanese corporations raised the prices of cars to cope with the restrictions and made a large profit. The only people who suffered a loss were the U.S. consumers.

A Vicious Cycle

On the other hand, Japanese automakers under export restrictions have started manufacturing cars in the United States and, despite initial skepticism, have become successful.

Annual production will reach a total of about 2 million cars in the early 1990's, including commercial vehicles and those sold in Canada.

The total of japanese cars exported to the United States and manufactured there accounted for 30 percent of the U.S. market in December 1989. U.S. critics have responded by trying to restrict the total market share allocated to Japan. It is a vicious cycle, with one restriction leading to another.

However, Japan must learn a lesson from such a protectionist attitude in the United States when trying to protect its own industries that are weak in competitiveness.

Lifting of Auto Export Restraints to U.S. Urged

OW2101201290 Tokyo THE DAILY YOMIURI in English 20 Jan 90 p 9—FOR OFFICIAL USE ONLY

["Currently Speaking" column by staff writer Yasuhiko Shibata: "New Trade Strategy Needed for Japanese Auto Industry"]

[Text] The International Trade and Industry Ministry Wednesday decided to maintain Japan's current voluntary restraints on car exports to the United States in fiscal 1990. The ceiling of the nine-year-old agreement for fiscal 1990 will be 2.3 million cars, identical with this year's figure.

It's time for a change.

The decade since the restraints were first adopted has transformed the international automobile industry. Japan should develop a new car export strategy for the new situation.

Self-imposed restraints on the export of Japanese goods to the United States were first applied to electric household appliances, as a last resort to avoid Japan-U.S. trade frictions in late 1970's.

In the early 1980's, the restraints seeped into the car industry.

When U.S. automakers were slow to develop compact, fuel-efficient cars, the Japanese rushed to fill the breach. To save the ailing U.S. car industry, the U.S. Government called on Japan to restrain its car exports.

That the restraints were discussed during bilateral talks under the guise of a "gentlemen's agreement" doesn't change the fact that such voluntary restraints on exports to a specific nation go counter to the free trade system guaranteed by the General Agreement on Tariff and Trade.

Despite complaints from Japanese and european automakers and demands from U.S. consumers eager for high-quality Japanese cars, the U.S. Government continued to press Japan. And in 1981, the Japanese Government was forced to persuade its automobile industry to restrict exports. The Japanese automakers accepted on the condition that restrictions end after three years.

But the voluntary restraints have been in force for three times that long; the agreement will be 10 years old on April 1. Since it took effect, Japanese automakers have begun direct investments in the United States to produce cars there. Japanese companies have established sales networks and auto parts factories in the United States, and Japanese cars that are "made in America" have captured a large share of the U.S. market.

In the same period, the so-called "Big Three"—General Motors Corp., Ford Motor Co. and Chrysler Corp.—which were seriously damaged by the second oil crisis in 1979, gradually recovered, thanks in part to restrictions on Japanese auto exports.

But U.S. major automakers now face another crisis, again of their own making. Bad management, unskilled workers, a lack of investment in up-to-date factory equipment, a failure to equip cars with popular fuel-efficient and pollution-control devices have all contributed to dwindling sales, factory shutdowns, and layoffs.

Ten years ago, the ill-health of the U.S. auto industry was treated by limiting the number of Japanese and European cars allowed into the United States. That solution won't work again. Even if imports are limited, Japanese and European automakers can and will skirt the restrictions by making their cars in the United States.

U.S. automobile industry analysts say the United States must figure out a way to rescue the Big Three and rebuild its crippled automobile industry. Some suggest that the U.S. Government and U.S. auto industry seek government and private assistance from Japan in the form of technological and managerial advice, as well as money for equipment investment, and research and development.

Such requests would not be in Japan's best interests.

The Japanese auto industry can't afford to sit on its haunches. It must develop a strategy to anticipate the U.S. auto industry's next demands. Japan won't ease bilateral frictions through the tired mechanism of voluntary restraints.

Concern Over U.S. Trade Friction Resurfaces

OW1201143990 Tokyo YOMIURI SHIMBUN in Japanese 9 Jan 90 Morning Edition p 3—FOR OFFICIAL USE ONLY

[Text] Concern is rising about the possibility of U.S.-Japan friction being rekindled over defense matters, which have been quiet since the question was settled over Japanese-U.S. joint development of the Self-Defense Forces's next generation support fighter plane (FSX). This is because discontent is rising in the U.S. Congress over the question of Japan increasing its share of costs for U.S. forces in Japan, and an issue surrounding the escort of the ships to transport plutonium from England and France, beginning in 1992.

In the Defenese Agency [DA] there are those who express concern over the possibility of Japan-U.S. defense friction resuming. These concerned people say that no conspicuous move is seen in the United States at the present time, since people there think "they have nothing to gain from pushing the Liberal Democratic Party [LDP] now when it has the general elections ahead of it," but "it appears almost certain that pressures against Japan will increase once the general elections are over."

The Upper and Lower Houses of the U.S. Congress, urging Japan to increase its share of defense responsibilities, passed in December 1989 a bill envisaging an increase in Japan's share of costs to maintain U.S. troops in Japan as part of measures to cut U.S. military expenses. The DA, which "upholds the maintenance of amicable Japan-U.S. defense relations as the basis of Japan-U.S. relations, "has kept giving positive responses to the question of increasing Japan's share of the military burden, and has endeavored to prevent the U.S. discontent from intensifying; for instance, the DA gave special considerations to the U.S. concern in preparing the defense budget for 1990. Even with such a position, however, the DA has not been able to completely root out the apprehensions for a resumption of Japan bashing.

Furthermore, about the Japanese Government's decision to use patrol boats of the Maritime Safety Agency to escort plutonium supplies, (according to a senior official of the DA), "among defense-related U.S. Congressmen, some are critical about not using destroyer escorts, because there are fears about the nuclear materials being hijacked." This being the situation, apparently no one can deny the possibility of new Japan bashing starting over this matter.

In fact, some officials concerned with the U.S. Congress tacitly predicted an increase in pressure on Japan, following the general election. They said: "Discussions on defense-related issues in Japan will begin in March."

Economic Relations With U.S. in 1990 Viewed

OW1301073190 Tokyo THE JAPAN ECONOMIC JOURNAL in English 13 Jan 90 p 6—FOR OFFICIAL USE ONLY

["Analysis" column article by Hideo Tamura, NIHON KEIZAI SHIMBUN senior staff writer: "U.S.-Japan Trade Ties Are Facing Tough Test"]

[Text] The economic relationship between Japan and the U.S. will undergo a serious test in 1990.

The ordeal will come about as the U.S., beset by ill-performing auto and high-tech industries, will turn more toward protectionism and start taking further retaliatory steps against Japan to maintain its vital business interests. This in turn will possibly ignite Japanese public opinion against everything American. Such vicious circles will not only impede any ongoing progress in Japan-U.S. economic interdependence, but also bring about adverse effects upon the world economy.

Thus, it is high time for both nations to find some measures to minimize any adverse effects that could be engendered by a likely confrontation between the two countries.

For one thing, there will be a number of serious problems impeding bilateral economic relations in 1990. The biggest headache will center on the automobile industry. The Big Three—General Motors Corp., Ford Motor Co. and Chrysler Corp.—were awash in red ink in their respective domestic accounts for the July-September period of 1989, and each plans to lay off workers this year.

Heavier losses are expected to extend through the October-December period of 1989 into this year. As the ongoing "voluntary" restraint agreement (VRA) on Japanese car exports to the U.S. is due to expire in March, both nations will soon have to grapple with the issue of whether to extend the VRA.

In the U.S. some government officials have openly started advocating a "new economic order" in which the total production output of the U.S., Western Europe and Japan would be set at a ratio of 5:5:3, respectively. The proposal reminds one of the similar ratio floated during world naval disarmament talks between World War I and II. Such talk of a new order could cause bilateral tensions to flare.

Later this year, the two nations will continue their talks over the Super 301 clause of the 1988 U.S. Omnibus Trade Act. On top of the list of problems will be Japan's structural impediments to the entry of U.S. products, and the alleged shutting out of U.S. construction firms on major projects in Japan. Barring progress, both areas could be the basis of retaliatory actions by the U.S. against Japan. The U.S. will also be deciding on possible sanctions against Japan for unfair trade practices concerning supercomputers, satellites and lumber.

Things will get more serious if the U.S. Government presses the point that Japan's exclusionary corporate practices and distribution system are "unfair" structural impediments to trade. "Such a ruling will mean that Japan as a nation will be called 'unfair,'" says an official of the Foreign Ministry.

To make matters worse, the Japan-U.S. trade imbalance is expected by many to widen in 1990. The U.S. has actually started seeing black ink, albeit a small amount, in its trade with the European Community. This will only help to magnify the huge deficit with Japan.

In addition, the "revisionism" contention that Japan is an outsider nation unable or unwilling to voluntarily agree to open and free trade, and therefore must be "contained," will become a majority opinion in the U.S. Congress, contributing to further "Japan bashing" on Capitol Hill.

It will not just be economic factors, but also political ones that will work against Japan. In the past, many officials of the U.S. State Department were steadfast in their defense of Japan, saying that any deterioration of Japan-U.S. relations would undermine security in the Far East. But now that the military threat of the Soviet Union as perceived by the U.S. is diminishing, this view is unlikely to hold much weight in coming years.

The U.S. Treasury Department also recently denounced what it called Japan's investment barriers and closed financial market, in contrast to its previous remarks that "Japan money" and cordial bilateral relations were important. The change of heart perhaps came about as a result of growing anti-Japan sentiments in the U.S., sparked by the highly publicized Japanese spending spree on U.S. companies and real estate.

One major cause behind such deteriorating relations is the fact that the U.S. economy is showing signs of faltering, and the American people are fearful of Japan's growing international competitiveness. Thus, in order to eliminate such worries, it is necessary for Japan to bear a heavier burden in world economic affairs. And 1990 will be a good year for Japan to start constructive talks over the matter with the U.S.

MITI Analyzes Commodity Price Gap With U.S.

OW1701181290 Tokyo NIHON KEIZAI SHIMBUN in Japanese 14 Jan 90 Morning Edition p 3—FOR OFFICIAL USE ONLY

[Text] The Ministry of International Trade and Industry [MITI] on 13 January concluded its analysis of commodity price gaps inside and outside the country. These price gaps have been a subject of criticism in the United States and other countries. The ministry has also prepared a plan to address the problem.

According to the analysis, high commodity prices in Japan are primarily caused by the interaction of the following three factors: macroeconomic factors such as high land prices, the distribution system, and the pricing strategy of enterprises. As ways to eliminate the internal-external price gaps, the ministry proposes to: 1) inform the people about the existing situation through such organizations as consumer groups; and 2) request industries concerned to drop unfair distribution practices, which are strongly being criticized by foreign countries. The ministry will present its findings and plan to deal with the problem at the third Japan-U.S. structural talks in late February. It will seek U.S. understanding of its efforts to solve the problem.

MITI will also report its findings to the government-Liberal Democratic Party council on measures to address interior-exterior price gap problems (led by Prime Minister Kaifu) on 19 January. The council will prepare its own remedial plan by incorporating MITI proposals as well as measures adopted last year, which include the institution of an import promotion tax, the reduction of public service charges including air fares, and the adoption of policies to address land price problems.

The ministry analysis lists as macroeconomic factors contributing to higher commodity costs the following four: land prices, service charges, costs for environmental and safety protection measures, and size of markets. High land prices have pushed up warehouse costs and costs to maintain shops and offices because of the higher rent paid here than in other countries; thus, commodity prices are higher. According to the analysis, meticulous inspection of products, excessive packaging, and sales-related services have also contributed to rising labor expenses, thus raising commodity prices. The analysis further revealed that for some products, such as spark plugs, with a small market, expenses for advertising and after-sale services are excessively high, as compared with other countries.

As examples of unfair distribution practices, the analysis noted the market for famous-brand articles—where there is no room for price competition—and Japan's unique commercial practices, such as sending salesmen to help retail customers sell their products and accepting returned goods. In the market for famous-brand articles, such as cosmetics, pens, bags, and neckties, there is the long-standing practice of wholesalers as well as retailers not competing with each other over prices. The analysis also said the system of sending salesmen to help retail customers and the system of accepting returned goods are problems. The former raises intermediate-level distribution costs, and the latter "increases inventory costs for intermediate distributors; they make pricing inflexible."

The following is a pertinent example of enterprise pricing strategy: the analysis cited the exclusive import agents who uphold high prices in order to create the impression among consumers that their products are famous-brand articles.

MITI thinks that one reason why these enterprises have been able to maintain such high prices is because the consumers are not aware of the gap in prices at home and abroad. Consequently, the ministry plans to step up public relations activities on this situation, prepare pamphlets for consumers, and educate consumer groups. MITI will call on distribution firms to study and come up with ways to deal with exclusive import agents, accepting returned merchandise, and sending out salesmen—practices which have attracted overseas criticism for being inefficient and contributing to higher costs.

MITI and the U.S. Department of Commerce submitted to the Japan-U.S. structural talks in November reports on a jointly conducted survey regarding prices in Japan and the United States. The survey compared retail prices of 18 merchandise items imported by Japan and by the United States from Europe, and it found that Japan was selling 15 of the 18 items at higher prices than the United States. The United States is now demanding that the distribution system and commercial practices be revised, saying: "The reason why commodity prices in Japan are so high is because of the closed nature of the market."

Editorial on Japan's Help to U.S. Chip Makers

OW1801052490 Tokyo THE JAPAN TIMES in English 16 Jan 90 p 20—FOR OFFICIAL USE ONLY

[Editorial: "Volatility in the Microchip Market"]

[Text] The news last week that leading domestic semiconductor manufacturers plan to reduce production of 1-megabit memory chips by as much as 10 percent to 15 percent early this year is further indication of just how cyclical this volatile high-tech business can be. The decision by major makers is not surprising, however, in view of falling prices brought on by the decrease in demand, largely due to slumping sales of personal computers in the United STates.

But there also has been a downturn in the demand for the 1-megabit dynamic random-access memory chips, or DRAMs, here at home, and the combined slackening has caught some of the industry off guard. The almost concerted action by the makers indicates that they well remember the prolonged microchip slump of the mid-1980's when they suffered severe financial losses.

Behind the current concern of the semiconductor manufacturers lies the need to determine a satisfactory pricing scheme for the vaunted next-generation chip, the 4-megabit DRAM. Analysts say that some of the makers are already preparing to get the jump on rivals by introducing 16-megabit DRAMs soon after full introduction of the 4M chips. One reason for the rush into semiconductors with greatly increased memory capacity is pressure from lower-cost producers in the NIEs, or newly industrializing economies.

Japan's large vertically integrated electronics manufacturers, traditionally the nation's main memory chip producers, recently have been joined in that business by a number of newcomers, including even major steelmakers who are using it as part of long-term diversification plans.

A continuing role in the microchip market requires a high level of capital investment for the installation of constantly improving production equipment. This means only big players or those with production equipment. This means only big players or those with deep pockets can attempt it. And yet, the rising costs are making it necessary for even Japan's big players to team up to conduct the research on next-generation chips.

Foreign memory chip makers in the U.S., Eruope and Asia are seeking to expand their role in the world market to gain technologies that can be used in other semiconductor products. Falling behind in memory microchips could also mean losing out in markets like those for microprocessors and application-specific integrated circuits, or ASICs.

Some analysts are asking whether American semiconductor manufacturers are placing too many hopes in the Sematech consortium—for semiconductor manufacturing technology—that is jointly funded by $100 million from the U.S. Federal Government and another $100 million from the makers themselves. The consortium works to develop the technology necessary for advanced microchips.

But reports indicate that the U.S. semiconductor industry actually is divided in its support for Sematech, and even more so for the proposed consortium called U.S. Memories, which is intended to provide an ongoing American source of advanced computer memory chips and increase the technological level among U.S. manufacturers. Some of the top American semiconductor makers originally expected to join U.S. Memories are declining to do so. Part of the rationale behind these consortia is, of course, an attempt to adopt this country's pattern of government support and protection for specific industrial sectors through the Ministry of International Trade and Industry that was common up until the early 1980s.

A recent international survey puts six of Japan's semiconductor manufacturers among the world's top 10 for 1989 in terms of market share. There are few signs of this dominance decreasing despite growing competition from manufacturers abroad. America's chip makers so far have only been able to obtain about 11.5 percent of the market here rather than the hoped-for 20 percent following the signing of a bilateral agreement in 1986.

A 10-point joint development plan offered to the Semiconductor Industry Association (ASIA) of the U.S. by the Electronic Industries Association of Japan (EIAJ) last month should help small and medium-sized U.S. chip manufacturers gain a greater market share here through cooperation in manufacturing, technology and sales. The plan includes specific proposals to implement this and they hold promise for giving a meaningful boost to American makers here as market demand returns to normal.

Soviet Union

Gorbachev's Remarks on Territories Viewed

OW1801050790 Tokyo THE JAPAN TIMES in English 17 Jan 90 p 18—FOR OFFICIAL USE ONLY

[Editorial: "Time for a Flexible Dialogue"]

[Text] No constructive talks can start in any bilateral relationship, be it between individuals or countries, before both sides recognize that the other party can have an opposite view on a problem of common interest and before the two sides are willing to seek ways to solve the issue. No dialogue in the true meaning of the world therefore has been held between Japan and the Soviet Union concerning Japan's claim to the islands east of Hokkaido, which have been occupied by the Soviets since the end of World War II.

Moscow has long stuck to the position that there are "no issues pending between the two countries since World War II." This has been the usual phrase in any formal Soviet response to Japan's reference to the territorial issue although it sometimes has alternated with the slightly conciliatory stance that there remain some "difficult problems" between the two nations.

Viewed against this background, Soviet President Mikhail Gorbachev's remarks in Moscow on Monday represent a slight departure from the long-held Soviet adamancy that may have served the purpose of solidifying the Kremlin's territorial policy during the Cold War but now is obviously doing the Soviet Union a disservice in promoting economic welfare for its people.

During his meeting with Mr. Shintaro Abe, former secretary general of the ruling Liberal-Democratic Party, Mr. Gorbachev was quoted as saying: "We cannot force our views upon our neighbors. (Japan's insistence on the existence of the territorial problem) is your sovereign right." Mr. Gorbachev was also quoted as telling Mr. Abe that he "can guess what is specifically meant by your reference to a difficult problem pending (between the two countries). I would like to say we will be able to deal with it as part of the overall development."

Mr. Gorbachev made these remarks in response to Mr. Abe's statement that there is "no other way but to solve with wisdom the difficult issue pending between the two countries." Mr. Abe also called on the Soviet leader to develop the bilateral relationship by promoting cooperation in other areas. Mr. Abe's message is that Japan and the Soviet Union should step up efforts to settle the territorial issue while simultaneously deepending relations in other nonpolitical areas.

There appears to be no great difference, therefore, in what the two leaders have in mind as a broad framework of policies to improve and readjust the Japan-Soviet relationships in the post-Cold War era. The vital difference lies in the extent of national motivation for seeking settlement of the territorial issue.

For most Japanese, the territorial question is the problem that should be resolved first to end more than four decades of the abnormal relationship between our two nations. Emotion still is a strong factor in the desire to have the three islands and a group of islets off Hokkaido revert to Japan. For many informed Soviets, however, it probably is a problem whose solution must be weighed against the long-term benefits, especially economic ones, to be gained from the improvement of relations with Japan as well as against resulting military disadvantages.

This must have been well understood by Soviet leaders for many years. The ball has been almost always in the Soviet court. It is too early to say anything definite about what specific idea or policy Mr. Gorbachev had in mind when he made his remarks to Mr. Abe. But his response seems to indicate a welcome shift in the wind of the Soviet attitude toward the problem. At least, it appears that the Kremlin under the leadership of Mr. Gorbachev is poised to sit and talk with Tokyo on the territorial issue.

If the Soviet Union becomes more serious about responding to Japan's claim to the so-called northern territories, the time may come for this nation to make a difficult decision. So far, Japan has been able to safely hold to its formal position that those islands should unconditionally revert to this country.

This is an instance of naivety, however. Under the prevailing circumstances, various other forms of solution, including a phased revision to Japan of those islands, can be possible. Thus we understand that the "wisdom" mentioned by Mr. Abe also means flexibility on the part of Japan in tackling the matter. Mr. Gorbachev's message is still ambiguous. But it is certain that he is the man that this nation should seriously deal with for the solution of the territorial problem while he is in power.

Paper Interviews Abe on Talks With Gorbachev

OW2001053490 Tokyo MAINICHI SHIMBUN in Japanese 17 Jan 90 Morning Edition p 2—FOR OFFICIAL USE ONLY

[By correspondent Hiroshi Komatsu]

[Text] Moscow, 16 Jan—Former Liberal-Democratic Party [LDP] General Secretary Shintaro Abe (who is here leading a party delegation to the Soviet Union) granted an interview to MAINICHI SHIMBUN after meeting with Supreme Soviet Chairman Gorbachev on

16 January. Giving a high appraisal to the forward-looking attitude of Chairman Gorbachev on improvement of relations with Japan, he said that he could "clearly sense the willingness of the Soviet leadership." He added: "In the Japanese-Soviet relationship hereafter, the rigid and formal attitude of the past will serve no purpose. We must make our move, facing the present situation squarely." He thus underscored his thinking that Japan should seek to improve relations with the Soviet Union, based on flexible thinking and actions, and making no bones about the unilateral principle of "not separating politics from economy." He also indicated that the party's role in diplomacy with the Soviet Union will increase in the future.

A summary of the interview with Mr Abe follows:

[Komatsu] Will you tell me your impression of the meeting?

Abe: I feel there was a major development made from the meeting. Chairman Gorbachev, for whom even a minute is so precious, was so warm in greeting and meeting with us. I think we were able to exchange our views in a very relaxed mood—probably more relaxed than at any time before. I could feel lying behind this mood were his deep conviction of the new thinking diplomacy and perestroyka, and his position of attaching importance to Japan. I could also feel the Soviet expectations from the Asian and Pacific region and their desire for rapprochement with Japan.

[Komatsu] Would you say you could feel the forward-looking attitude of Chairman Gorbachev in the northern territories question, too?

Abe: I did not specifically point to the territorial question, but I said we should tackle and solve difficult problems with wisdom. He gave a positive response, saying "Kharasho (good)." His thinking was the same as that of Mr Yakovlev (CPSU Politburo member and secretary) in that a solution should be sought from the natural course of overall events. I could sense vividly the willingness of the Soviet leadership. I hope Chairman Gorbachev will not retrogress from his position.

[Komatsu] Can the party delegation's visit to the Soviet Union this time be interpreted as the weight of party diplomacy increasing where Japanese-Soviet relations are concerned?

Mr Abe: This means that the LDP will do what is difficult for the government to do and that it will augment government-to-government activities or go beyond them to accomplish sought after objectives if necessary.

[Komatsu] There are views that the eight-item proposal for improved relations between Japan and the Soviet Union is a step forward from the principle of not separating politics from the economy.

Mr Abe: What is important is that we must seek a solution to the territorial question from the major flow of events, while maintaining the basic line of supporting perestroyka. The rigid, formal attitude of the past alone will do no good. There are big changes taking place in Japanese-Soviet relations and in Asia. I do not want to be a party to a quarrel, fighting over if the egg came before the hen or the hen before the egg.

[Komatsu] You do not foresee any obstacle to Chairman Gorbachev making a visit to Japan as scheduled?

Mr Abe: As long as Japan-USSR relations do not go backward, that is impossible.

[Komatsu] How do you intend to proceed with the exchange with the CPSU?

Mr Abe: I hope we will reciprocate visits at the rate of once a year.

Government To Carry Out Abe Program for USSR

OW2101021590 Tokyo THE JAPAN TIMES in English 20 Jan 90 p 1—FOR OFFICIAL USE ONLY

[Text] The government and the Liberal-Democratic Party [LDP] will cooperate in carrying out the proposals made by former LDP Secretary General Shintaro Abe to help the Soyiet Union pursue perestroyka, Prime Minister Toshiki Kaifu said Friday.

Former Foreign Minister Abe, in his recent meeting in Moscow with Soviet President Mikhail Gorbachev, offered an eight-point proposal aimed at improving overall Japanese-Soviet relations and assisting the Soviet leader's perestroyka efforts. Abe was head of a high-level LDP delegation to the Soviet capital.

At their meeting, the Soviet leader reportedly indicated a softened stance on a long-standing dispue over Japan's claim to a group of Soviet-held islands off Hokkaido.

In Friday's meeting with Abe, Kaifu praised the results of his Moscow visit, sources at the session said. The two also reconfirmed the importance of party unity as an essential element for winning a 257-seat majority in the coming Lower House election slated for Feb. 18.

Column Voices Concern About LDP-USSR Moves

OW2101014790 Tokyo THE DAILY YOMIURI in English 19 Jan 90 p 3—FOR OFFICIAL USE ONLY

["Political Beat" column article by Toshiyuki Takahashi: "Abe Spreads LDP Gospel in USSR"]

[Text] Soviet President Mikhail Gorbachev, in his meeting last Monday with former Liberal Democratic Party [LDP] Secretary General Shintaro Abe, acknowledged that Japan's insistence of its sovereignty over the Northern Territories is Japan's "inherited right."

A senior official of the Foreign Ministry said that the Abe-Gorbachev talks marked a great step forward in promoting diplomacy between Japan and the Soviet

Union, demonstrating the importance Moscow placed on the summit meeting with the LDP's representative.

The meeting was also a public acknowledgment of Moscow's recent moves toward the LDP, which could affect Japan's political scene after the dissolution of the House of Representatives and the subsequent general election.

The Soviet Union has been moving closer to the LDP in the last few years, paralleling diplomatic negotiations with Foreign Ministry bureaucrats who insist that Japan will refrain from any economic exchange with the Soviet Union until that country returns the northern islands to Japan and signs a peace treaty. Ministry negotiators have stuck to the credo that "political and economic problems should be treated as one and the same."

Moscow's attempt to get closer to the LDP has been reflected in a series of private contacts between former Deputy Prime Minister Shin Kanemaru and executive members of the Soviet Communist Party. Kanemaru recently met with Yevgeniy Primakov, an alternate member of the Politburo of the Central Committee of the Communist Party of the Soviet Union. Primakov is also known as Gorbachev's right-hand man.

The Foreign Ministry has been particularly alarmed by a series of moves within the LDP. The ministry has long been engaged in territorial negotiations with the Kremlin and now fears that the territorial dispute could be abruptly settled through a "highly political judgment."

Responding to Gorbachev, who acknowledged that there is a conflict between Japan and the Soviet Union over the northern territories, Abe offered an eight-point proposal, promising Moscow that Tokyo is ready to provide assistance in many fields. This seems to have invited further concerns from the Foreign Ministry, which has been taking the stance that the territorial issue could not be separated from economic cooperation.

The Foreign Ministry stresses that Abe's proposal was made within the principle that political and economic issues are inseparable. The ministry fears that its long efforts will be suddenly wasted by Abe's action, just as a small leak can sink a great ship.

Bypassing official diplomatic channels, Moscow made more promising replies to Abe, because the Kremlin presumably believes that negotiations through political channels are the most effective way to solve problems with Tokyo.

Meanwhile the Chinese Government expressed its strong desire to invite former Prime Minister Noboru Takeshita to Beijing in an effort to improve Sino-Japanese relations when LDP Lower House member Shinya Totsuka visited China at the end of last year.

Anyone who has observed Japanese politics knows the importance of the role played by the LDP, and power and influence wielded by Takeshita, Kanemaru and Abe, as well as their direct successor LDP Secretary General Ichiro Ozawa. Naturally, the Chinese and Soviet leaders will not overlook such an elementary fact.

Kanemaru entrusted Abe with his personal message to Primakov in an effort to set up a meeting between Primakov and himself. It is also reported that the Soviet side is eager to invite Ozawa to Moscow after Abe. Abe's successful trip to Moscow has certainly added momentum to the LDP's move to improve its diplomatic negotiating capabilities.

Editorial Hails Abe's Talks With Gorbachev

OW1901163090 Tokyo MAINICHI DAILY NEWS in English 18 Jan 90 p 6—FOR OFFICIAL USE ONLY

[Editorial: "Abe-Gorbachev Talks"]

[Text] Soviet leader Mikhail Gorbachev in his meeting with former Liberal Democratic Party [LDP] Secretary General Shintaro Abe seems to have made a major departure from Moscow's past position on Japan's claim to the northern territories.

It is significant that Gorbachev met with Abe despite his preoccupation with ethnic problems in the Soviet Union. This indicates that the Soviet leader places great importance on relations with Japan.

On the territorial dispute, Gorbachev said this "involves your sovereignty. You have an inherent right." This was in sharp contrast to Gorbachev's statement on the issue in May 1986, when he said this is "a problem which should not be taken up for discussion."

This seems to signify that the Soviet Union admits the existence of the territorial issue between the two nations.

Japan's position on the issue has changed slightly. Abe said Japan would like to promote cooperation with the Soviet Union, suggesting Japan would extend support for perestroyka while negotiating on the territorial question.

Better Relations

Japan had taken the stance that the territorial issue could not be separated from economic cooperation. Abe's eight-point proposal does emphasize assistance in managerial administration for the enhancement of productivity but does not mention loans or investment.

Therefore, in a sense Japan is maintaining its policy of treating political and economic questions as one and the same. But Abe did clearly declare Japan's support for Soviet reforms.

Abe's proposal is probably aimed at trying to find a clue on how to solve the territorial issue by showing Japan's willingness to cooperate with the Gorbachev administration which is having a hard time in dealing with such critical problems as economic stagnation and ethnic strife.

Of course, no real progress was made on the territorial dispute. Gorbachev's statement may only mean that

Japan is free to claim sovereignty over the islands. However, the Abe-Gorbachev meeting will likely lead to better relations.

Useful Forum

Gorbachev also stated that the territorial issue should be dealt with as part of the overall development generated in the course of natural changes. This may mean he wants to "shelve" the territorial issue for the time being, hoping it will become a less pressing problem for Japan. The real meaning may become clearer when Moscow and Tokyo start full-fledged negotiations prior to Gorbachev's visit to Japan next year.

As the representative of the LDP, Abe did succeed in conducting "political dialogue" with Gorbachev. Unlike negotiations between governments where principles are strongly stated, meetings between political parties provide a venue for stating candid opinions and for probing to find possible concessions.

However, caution is required because such wide-ranging and flexible meetings may invite confusion and thereby weaken Japan's position in complicated and shifting domestic politics.

Meaningful results can only be produced through political dialogue based on sound principles and careful analysis.

Columnist on Results of Abe-Gorbachev Talks

OW2301055690 Tokyo THE DAILY YOMIURI in English 21 Jan 90 p 3—FOR OFFICIAL USE ONLY

["Behind the Scenes" column by Minoru Hirano: "Is Gorbachev Worth Helping?"]

[Text] In dealing with Moscow, the Japanese Government has been adhering to a policy of not separating economic affairs from politics. Thus, the Government refused to extend economic aid to the Soviet Union as long as the Kremlin remains intransigent on the Northern territorial issue. However, the Government is now gradually and quietly modifying the policy in order to bail Soviet President Mikhail Gorbachev out of his problems with domestic ethnic unrest and the long-ailing Soviet economy.

The Moscow meeting between Shintaro Abe, former secretary general of the Liberal Democratic Party, and Gorbachev on Jan. 15 ended without any tangible progress on the territorial issue. The only outcome was confirmation by Gorbachev that he would visit Japan sometime in 1991.

Some newspapers played up a remark made by Gorbachev during the meeting that the Japanese claim to the northern islands was a question of Japanese sovereignty. But, to the Foreign Ministry which did not expect much from the Abe visit, this was not a new development.

In January 1986, when Soviet Foreign Minister Eduard Shevardnadze visited Japan, he told then Foreign Minister Abe that the Soviet Union could not stop Japan from bringing up the territorial issue, but he did not retreat from the Soviet position that there was no territorial issue because it had already been settled.

On Jan. 4, Gorbachev informed British Labor Party leader Neil Kinnock that he was postponing meetings with foreign politicians scheduled in January to deal with domestic problems and that his Jan. 16 date with Kinnock would be postponed by 2 or 3 months. A rumor went around that Gorbachev might be ousted, triggering stock market slumps in Tokyo, Hong Kong, and New York.

Despite the fact that Gorbachev may be too busy dealing with the secessionist movements in the Baltic states and strife between Azerbaijan and Armenia to pay much attention to Japan, Moscow probably accepted the visit by Abe to counter the ouster rumor.

Foreign Ministry officials have long discussed whether Gorbachev was worth helping. A Soviet economic mission led by Communist Party official Anatoliy Milyukov visited Japan last November. When the Foreign Ministry learned of the Soviet plan, one of the hard-liners opposed acceptance of the mission on the grounds that it ran counter to the policy of not separating politics from economics. But Vice Foreign Minister Takakazu Kuriyama reportedly decided to accept the mission, saying that settling the territorial issue presupposes that Gorbachev will remain in power and the Government should help him carry out perestroyka.

At present, the Foreign Ministry's consensus is that it is premature to scrap the policy of not separating politics and economics. The ministry still suspects that Gorbachev is not paying much attention to Japan and that he is all talk and no action.

In May last year, Gorbachev only read out a paper prepared by the Soviet Foreign Ministry when he talked with then Foreign Minister Sosuke Uno. This gave the Foreign Ministry the impression that he did not yet think that breaking the impasse in Japan-Soviet relations was indispensable for the success of his perestroyka and his survival.

However, Aleksandr Yakovlev, a Soviet Politburo member and Gorbachev's confidant who arrived in Japan last November, reportedly told a Canadian diplomat (an acquaintance since the time he was Soviet ambassador to Canada) that he thought it was difficult to break the impasse in Japan-Soviet relations. The Foreign Ministry interpreted this remark as a hint that Yakovlev had begun to think seriously of ways of improving Japan-Soviet relations.

Gorbachev talked with Abe for 20 minutes with only interpreters present. Did he speak in his own words instead of reading out a paper prepared by the Soviet Foreign Ministry? On the basis of an impression received by Abe and Foreign Ministry officials who were present during the rest of the talks, the Foreign Ministry must ascertain whether Gorbachev has changed. For the ministry, this is the point of Abe's visit to Moscow.

Daily Notes Abe USSR Visit Amid Ethnic Unrest

OW1801203490 Tokyo ASAHI EVENING NEWS in English 17 Jan 90 p 6—FOR OFFICIAL USE ONLY

[ASAHI SHIMBUN 17 January editorial: "Making Foreign Policy"]

[Text] Shintaro Abe, of the ruling Liberal-Democratic Party [LDP], was greeted by Moscow's biting cold. But his talks with senior Soviet leaders have proved fruitful.

Soviet President Mikhail S. Gorbachev conceded in his talks with Abe that it is one of Japan's "inherent" rights to assert itself in seeking a solution to the question of the northern territories. It is quite significant that the Soviet leader personally made this remark amid the appearance of signs of a changes in the adamant Soviet posture that "there simply does not exist any territorial issue" between the two nations.

But that hardly means that Gorbachev has come out with concessions over the territorial question, and the path toward a solution is a thorny one. Neither optimism nor impatience is warranted.

Now that an atmosphere has been established at great pains for possible concessions, it is important to couple it with substantive improvements in relations between the two countries. It is high time Japan drew on its resources to encourage further changes on the part of the Soviet Union.

Against the backdrop of a Soviet readiness to sit at the conference table on the territorial question are the overall changes in relations between East and West. Perestroyka, which made those changes possible, is now on the threshold of success or failure.

Before meeting Abe, Gorbachev had been concentrating his efforts on defusing the Lithuanian movement for secession. And Abe's talks with Yevgeniy M. Primakov, chairman of the Council of the Union, were abruptly canceled right before they were scheduled to begin because Primakov had to leave Moscow to help in efforts to defuse the situation in Azerbaijan.

It attests to the considerable degree of importance the Kremlin attaches to Japan that it agreed to meet with Abe during such a tense domestic situation. One tactic in a game of diplomacy is to move on the other party when its attention is focused elsewhere. But when it comes to major outstanding issues, such as the territorial question, there is a need to grapple with it head-on while striving to stabilize the situation.

Because of perestroyka public opinion has become something that cannot be ignored, even in a Communist country. In fact, a wide variety of views on the northern territories have gushed forth in the Soviet Union.

It is essential for Japan to be seen as a favorable nation among the people of the Soviet Union. It may sound like a move in a separate direction, but this approach is the premise for encouraging the Soviets to take steps forward on the territorial issue.

For this, what should Japan do?

In a position to endorse perestroyka, Abe in talks with Gorbachev proposed an eight-item package, including economic cooperation and personnel exchanges. Abe's posture is appreciable, though the ingredients in the package have yet to be ironed out between Japanese and Soviet foreign-policy officials.

Should the territorial question alone be isolated, the negotiations might end up in a winner-take-all game over the islands. Doggedly, we demand their reversion. But for us to do so successfully we are bound to strive for better ties between Japan and the Soviet Union.

In his talks with Gorbachev, Abe emphatically said, "The elements of Asia's peace and stability must be added to changes that are taking place in a global framework, and Japan would be ready to play a part."

Regrettably, the winds for an end to the Cold War that are churning across Europe have yet to blow over Asia. We are in support of Abe's perception.

Just what does the Japanese government intend to do toward an easing of tensions in Asia? The government is urged to let the world know what sort of foreign policy it has in mind.

The tensions in Asia are complex in that they involve separate issues, which stem from divided nations and developing nations, coupled with the confrontation between the superpowers. For Japan, too, they are entangled with the structure of the Japan-U.S. security treaty and the concerns of Japan's neighbors over its increasing military spending.

It is to be hoped that each political party, especially the liberal-Democratic Party, which has sent Abe to Moscow, work hard together on the way Japan's security and foreign policy ought to be in the midst of changes in the structure of global order.

Daily Says Abe Delegation Achieves Goals

OW1901064590 Tokyo MAINICHI DAILY NEWS in English 17 Jan 90 p 1—FOR OFFICIAL USE ONLY

[By Hiroshi Komatsu, MAINICHI SHIMBUN]

[Test] Moscow—One of the major missions of Shintaro Abe, former secretary-general of the Liberal-Democratic Party, [LDP] was to hear from Soviet President Mikhail Gorbachev himself that he plans to come to Japan in 1991, a source who accompanied Abe said.

Abe succeeded in drawing such verbal confirmation from Gorbachev during their one-hour talk on Monday.

The Soviet leader said he would come to Japan "as long as there are no obstacles" to the visit.

It was the first time that Gorbachev had personally referred to his projected trip to Tokyo.

However, his remarks can be interpreted to mean that his visit could be postponed depending upon the domestic situation in the Soviet Union and Japan's attitude, the source said.

The LDP delegation, led by Abe, believed that their mission would be considered a success if they could get confirmation of the trip directly from Gorbachev. Japan's awkward diplomacy with the Soviet Union will stabilize if Gorbachev visits Tokyo next year, the source said.

The LDP delegation also took Gorbachev's remarks on the northern territorial issue as progressive.

When Abe emphasized the need for both countries to solve the northern territorial issue, Gorbachev said that "there is a need to identify the difficult aspects and focus" on specific issues.

The source said that by saying that, Gorbachev urged negotiators to be more flexible over the territorial issue and find a breakthrough in order to conclude a Japan-Soviet union peace treaty, work on which was halted because of the territorial problem.

The two governments agreed in December 1988 to discuss the ownership of the three islands of Kunashiri, Etorofu, Shikotan and the Habomai archipelago by setting up a working group. However, no significant progress has so far been achieved.

It should be noted, however, that Gorbachev did not say anything about returning the four islands to Japan, the source said.

Meanwhile, Abe made eight proposals for the development of Japan-Soviet relations such as sending Japanese specialists to improve Soviet industrial productivity and the holding of technological exhibitions in both countries.

Until now, Japan has given first priority to solving the territorial issue and has linked the issue of economic cooperation to the political problem.

In this context, Abe's proposals, which for the first time deal with the issues of economic and cultural cooperation independently from the territorial issue, represent a significant change in Japanese diplomatic policy.

However, the Japanese Government is also worried that the Soviets might take advantage of the new approach and set aside the territorial issue.

USSR's Yeltsin Interviewed on Territories

OW1901073590 Tokyo MAINICHI SHIMBUN in Japanese 18 Jan 90 Morning Edition p 6—FOR OFFICIAL USE ONLY

["Exclusive" interview with Boris Yeltsin by Mitsuhiko Ito, MAINICH SHIMBUN deputy managing editor, and Makoto Sano, chief editorial writer, on 16 January; place not specified]

[Text] Mr Boris Yeltsin (a CPSU Central Committee member and a member of the Congress of People's Deputies), who is visiting Japan at the invitation of the "Club for Talks with Mr Yeltsin" Executive Committee (composed of Tokyo Broadcasting Station, MAINICHI SHIMBUN, Asia Research Committee, and Japan Foreign Affairs Association), granted an exclusive interview to MAINCIHI SHIMBUN on 16 January.

In the interview, he gave his views on the difficult situation facing socialism and the Soviet Union, and explained, in detail, the background of the "five-step proposal" regarding the northern territories. He asserted that there still remain deeprooted practices of privilege in the Soviet leadership.

Noting that the Soviet people judge how good or bad a governing structure or the state of politics is by their own status, he explained that the situation is not yet such that a high level of public opinion can be formed. This condition in turn is affecting the diplomatic policies of the nation. He cited examples, and called for patience on the part of Japan, which wants an early solution to the northern territories question. Mr Yeltsin also gave frank views on his personal relationship with Chairman Gorbachev.

[Question] In a recent public opinion survey conducted with 3,000 Soviet people (reported in the 1 January issue of this newspaper), 51 percent of the Soviet respondents said that they believed "capitalism was superior to socialism." Does this mean that supporters of Mr Yeltsin have become a majority in the Soviet Union?

Mr Yeltsin: Regarding that survey, what I must first say is that the so-called capitalism referred to is not the same capitalism (criticized by Marx) of the past, and the survey should have had a separate question if it wanted to find out my popularity. But, if there were to be a presidential election directly voted by the people, I would have a good chance. As for Chairman Gorbachev, as long as he does not change his stance, the situation would not be in his favor.

[Question] The year 1989 is called the year when socialism was finished. Why did socialism not function well? We think that this question should be asked now.

Mr Yeltsin: First of all, it must be admitted that the living standards of the people of many capitalist nations—like the United States, Japan, and Sweden—are higher than those in the Soviet Union and other socialist nations. People judge how good or bad a governing structure is, not by slogans, appeals, ideological interpretations, publicity, or dogma, but by what is sold over the counter in stores, how efficiently the service industries operate, and if housing is satisfactory—the last instance applying only to those who have houses, since there are people who have nowhere to live.

[Question] Why did socialism go wrong? Why could socialism not exist without the "Berlin Wall" or "the secret underground passages in Bucharest"?

Mr Yeltsin: This is because socialism was military barracks-run and state-run socialism. In other words, it was a totalitarian structure, protecting the one-party dictatorial rule. Perestroyka (restructuring) aims to liberate it from a series of doctrinaire bondages, but it is still not free of all dogma.

[Question] Do you think that such state socialism had its roots in Marxist-Leninism itself?

Mr Yeltsin: Naturally, there were errors in Marxism. What should have been done was to correct them, taking lessons from experience. In that sense, it can be said that the leadership since 1919 has committed crimes. Furthermore, the Soviet leadership distorted theories, and committed crimes against its people in the form of Stalinism.

To be sure, Marx made a prediction that "capitalism of the market economy will collapse." But, actually, the capitalism which Marx or Lenin had in mind no longer exists. What is here is not capitalism any more. This is a social system which is waiting for social scientists to give it a new name. Marx said that "under capitalism the poverty of laborers will worsen," and certainly this was said to be the case until the 1930s, but thereafter there was a change, and the living standards for laborers have improved.

[Question] Personally, when did you begin to feel that Soviet socialism had failed?

Yeltsin: I first saw a problem in how socialism was being realized. That was when I was working as the first secretary of the party in Sverdlovsk (1976). What made a decisive impression was entering the Politburo of the CPSU Central Committee (in 1986, he became a candidate member of the Politburo). There was too big a gap between the living standards of the common people and the highest leaders of the party. While there were 48 million Soviet citizens living below the poverty line, the leaders indulged in absolutely unnecessary luxuries. Although Mrs Thatcher is prime minister of a capitalist country, she lives a much more simple life than Chairman Gorbachev, who is a leader of a socialist country. This is despite the fact that it is natural for leaders of socialist countries to be much closer to the masses in their living standards. For instance, when Prime Minister Thatcher travels abroad, she flies in the same plane as ordinary citizens, but Chairman Gorbachev cannot do that. Prime Minister Thatcher rides with two other people in a car, but Chairman Gorbachev uses four Zils (Soviet luxury cars) and has bodyguards. Prime Minister Thatcher orders her own foodstuffs and pays for them with her own money, but in our country, the KGB (Committee for State Safety) delivers free food to the leadership.

[Question] Absolutely free?

Yeltsin: The service is free. I suppose nominal payment is made for the food itself.

[Question] In your speech at the Asian Research Committee, you stressed that the role of the RSFSR [Russian Soviet Federated Socialist Republic] in the Soviet Union should be changed. While the current situation is such that the minority nationality republics are seeking independence from Russia, you spoke as if the RSFSR were aiming for independence from the other nationalities.

Yeltsin: That is not true. It is unthinkable for Russia to become independent from the union. However, how is it that, while Belorussia and the Ukraine are (independent) members of the United Nations, the RSFSR is not? While the independence of the Baltic states, Georgia, and Azerbaijan has become a controversial issue, how is it that there are no discussions about the independence of the RSFSR? Without a strong RSFSR, a strong Soviet Union is impossible.

[Question] Then, would the 15 republics not all go their separate ways?

Yeltsin: The Soviet Constitution provides for the republics' right of self-determination and right to secede from the union. That is not only for appearance's sake. For example, I think that the three Baltic states may exercise their right of secession, based on this provision.

[Question] The USSR is still the world's greatest military power and the leader of the Warsaw Pact Organization. After the new developments in East Europe starting last year, what will be the significance of the Warsaw Pact; what will be the common goal in its defense?

Yeltsin: First, let me say that our country is not the world's greatest military power. There is parity between the United States and our country. As for the relations with the Warsaw Pact Organization, I hope that the organization continues to exist, despite the progress in democratization. However, what will happen in the future is a different question. I think that it would be good for the NATO to be dismantled, and for the Warsaw Pact to be dissolved after that, and then for a common house of European security to be established. As a first step to that end, it will be necessary for Soviet troops to withdraw from the Warsaw Pact and for U.S. troops to withdraw from NATO.

[Question] Do you think that U.S. and Soviet troops should withdraw simultaneously?

Yeltsin: The withdrawal should be undertaken under a U.S.-Soviet agreement.

[Question] Although the Soviet Union has shown a positive attitude to withdrawal from Czechoslovakia and Hungary, it has not made any clear statement on the more than 300,000 troops in East Germany.

Yeltsin: I think that these troops will also be withdrawn. However, this will have to come after talking and resolving the problem with the United States and NATO.

[Question] Mr Yeltsin, you have stressed that honesty should be the basis of a country's diplomacy. Frankly speaking, our impression of your "five step proposal" concerning the northern territories issue is that this somehow does not jibe with "honest diplomacy." It somehow smells of grafting the bamboo to the tree.

Yeltsin: Are you saying that it is bamboo and not a tree, or do you mean this is not honest diplomacy?

[Question] Unlike our impression of Mr Yeltsin's burning enthusiasm for Soviet reform, this seems to have been put forward to gain popularity with the Japanese people.

Yeltsin: Let me tell you that Japan may never get a more revolutionary proposal than this from the Soviet side. I am being criticized by both sides. I want you to understand that I know the thinking of the Soviet people very well. The era when you do not have to deal with the opinion of the people has become a thing of the past. What I am saying is that, as the process of democratization advances, it is necessary to influence that public opinion. We have to reduce this issue from a higher level of political culture to something comprehensible to our people. If we do not do that, the people will not change their position. You see, even my proposal would not be easy for the people to understand. That is a fact. Yet, Japan wants to solve the problem right away. You even had doubts when my colleague Afanasyev (president of the Moscow University of Paleography) said that the four islands should all be returned at once. We proposed a gradual solution, taking into consideration such doubts. If I wanted to be popular, I would have said smarter things to be applauded. We are dealing with practical politics; we cannot do that.

[Question] What do you think of Chairman Gorbachev's long article, "Socialist Thinking and Revolutionary Perestroyka," carried by PRAVDA (CPSU organ) in November last year?

Yeltsin: Considering the tradition of the Central Committee, his work should be reflected in portions of the article. In the case of the article in question, I am not sure how much of his ideas came out.

[Question] If Article 6 of the Constitution (on the leading role of the Communist Party) is deleted, do you think that this will be the basis for the formation of some sort of political parties?

Yeltsin: Even if it is deleted, I am not sure whether there will be a number of political parties. Personally, I think that there is a possibility for a multiparty system to come about... I propose that, in place of Article 6, there should be a provision for all political parties and social groups to have equal rights. I think that all these groups should conduct activities within the framework of the Social Organizations Law, to be adopted by the Supreme Soviet. Conducting activities within this framework means being restricted to a certain extent.

[Question] What do you think of the Tiananmen Square incident?

Yeltsin: That is a difficult question. In general, I am against violence. I am against the use of state power on the citizens under whatever circumstances, in any country, be it Panama or Afghanistan...

[Question] There have been reports on the conflict between Mr Yeltsin and Chairman Gorbachev's wife, Raisa. You seem to oppose Gorbachev's traveling with his wife. What is the truth about the reports of discord?

Yeltsin: There is absolutely no personal conflict. However, I have criticized Gorbachev's traveling with his wife during official trips inside the country. During foreign trips, since there is the problem of protocol, I think a wife is necessary. At least in the case of local trips, the people cannot understand the need for him and his wife to travel together. I have talked to the chairman about this directly. Gorbachev explained that he wanted to cultivate such a cultural style among the people, and that such a rule existed.

[Question] Do you sometimes call Chairman Gorbachev to say "hello"?

Yeltsin: When I opposed the program proposed by the government in the Congress of People's Deputies, the chairman was somewhat upset. Premier Ryzhkov hid his misgivings and sent me a New Year's greeting card, but Gorbachev was not able to do the same. Last year, he sent me a greeting card on Revolution Day (7 November), so I also sent him one. I have differences of opinion with the chairman, and our debate often becomes quite heated.

[Question] Since most Japanese hope that perestroyka will succeed in the Soviet Union, they sometimes worry that the cold war between Chairman Gorbachev and Mr Yeltsin may turn into a hot war.

Yeltsin: There will be no war between the two of us.

Minister, Yeltsin Discuss Joint-USSR Projects

OW2201191490 Tokyo JIJI in English 1226 GMT 22 Jan 90—FOR OFFICIAL USE ONLY

[Text] Tokyo, Jan. 22 (JIJI PRESS)—Construction Minister Shozo Harada has proposed Japan-Soviet joint projects of resort development in Siberia and constructing a highway linking Europe and Asia. He put forward the proposals in a meeting here with visiting Soviet reformist leader Boris Yeltsin Sunday.

As part of Russo-Japanese economic exchange, Harada proposed that Japan and the Soviet Union jointly develop a golf, ski and fishing resort around Vladivostok, which is geographically close to Japan, and construct a "silk road highway" running through Turfan, western China, and Samarkand in the southern part of the Soviet Union to Europe, with Japan's financial assistance.

Terming Harada's proposals as a very good idea, Yeltsin said he wants to positively consider them after he returns to Moscow. Yeltsin, a Supreme Soviet member, is on a 10-day stay in Japan. Yeltsin indicated a willingness to promote economic opening of four Soviet-held islands off Hokkaido, northernmost Japan, proposing allowing Japanese companies a chance of free activity there. Tokyo claims the ownership of the islands—Kunashiri, Etorofu, Habomai and Shikotan—which were occupied by Soviet troops in the closing days of World War II.

Yeltsin Comments on Territorial Dispute

OW2201191790 Tokyo JIJI in English 1418 GMT 22 Jan 90—FOR OFFICIAL USE ONLY

[Text] Hiroshima, Jan. 22 (JIJI PRESS)—Soviet reformist leader Boris Yeltsin said Monday that generating awareness among Soviet citizens of the territorial dispute between Japan and his country must precede any solution to the problem.

At a special lecture here entitled "Perestroyka and Japan-Soviet Relations" cosponsored by the Research Institute of Japan, an affiliate of JIJI PRESS, and local television network Chugoku Broadcasting, Yeltsin said that Japanese officials responded positively to his five-stage proposal for solving the dispute over the four islands off the coast of Hokkaido held by the Soviets.

Yeltsin said that his proposal is, however, only a foundation for discussion and so left room to follow a different sequence to the one he outlines. Thus, demilitarization of the islands could either precede or follow their designation as a free-enterprise zone, he said. Likewise, the signing of a Soviet-Japanese peace treaty could be either the fourth or fifth step, he explained.

Regarding perestroyka, Yeltsin criticized his government for handling issues randomly without any cohesive political strategy. To succeed, perestroyka urgently needs a law allowing private ownership, a transition to a market economy, a new and simpler tax law and a corporate law to guarantee independence of businesses, Yeltsin claimed.

Yeltsin reiterated his opposition to Soviet military action in Azerbaijian and said that the situation could precipitate a nationwide state of emergency which would only play into the hands of conservative elements.

Fanuc, Mitsui To Form Maintenance Firm in USSR

OW1301054390 Tokyo THE JAPAN ECONOMIC JOURNAL in English 13 Jan 90 p 15—FOR OFFICIAL USE ONLY

[Text] Fanuc Ltd, Mitsui & Co. and Stanko Service, a Soviet organization for machinery maintenance, will set up a maintenance firm for numerically controlled (NC) equipment in Moscow this April. Stanko Fanuc Service Ltd. will be capitalized at Y100 million, 50% from the Soviet side and 25% each from the Japanese firms.

Factories in the USSR are beginning to import industrial machinery on their own, under the influence of "perestroyka." Mitsui handles the export of Fanuc NC equipment that does not violate the terms of Cocom regulations governing trade with communist countries. Fanuc's first joint venture in a communist country was previously set up in Bulgaria.

Daily Urges 'Broad Perspective' in USSR Ties

OW2101040090 Tokyo MAINICHI DAILY NEWS in English 19 Jan 90 p 2—FOR OFFICIAL USE ONLY

[Editorial: "Japan and USSR in the World"]

[Text] The talks between Soviet President Mikhail Gorbachev and Shintaro Abe, former secretary-general of the Liberal-Democratic Party [LDP] held in Moscow earlier this week were some of the most important between the two countries.

Expressing high appreciation of the progress Gorbachev has made toward peace and arms reduction with his diplomacy of "new thinking," Abe called on Moscow to play a major role in Asia, emphasized the need to incorporate peace and stability in the region in line with the global changes that are taking place, and pledged Japan's help to that end.

Gorbachev responded that relations between Moscow and Tokyo must change in step with the changes in the world in spite of their political and cultural differences, and pointed out that resorting to power is no longer acceptable while it was sometimes the rule during the cold war period.

Abe's high expectation of a major Soviet role in Asia touched off a comment by Gorbachev that he had thought Japan had maintained a negative attitude in this regard. Nevertheless, Gorbachev's expression of hope for better bilateral relations in the global context seems very significant.

We have repeatedly pointed out that the ties between Japan and the Soviet Union should be addressed in a broad perspective, in a manner that they may contribute to global detente, and that stable bilateral ties are essential in Asia and the Pacific. Now, a meeting of minds has been reached to this effect at a high political level, and we welcome it.

Toward an actual settlement of the territorial problem the way is long and narrow, but as long as the problem is treated from a self-centered viewpoint no breakthrough seems possible. The two sides are already engaged in in-depth territorial negotiations, which requires an appropriate perspective.

Gone is the Soviet insistence that no territorial issue exists between Moscow and Tokyo, but what comes next is still unclear.

It was natural that the talks between Abe and Gorbachev did not produce results that may have a direct bearing on the territorial issue, as the nature of the problem bars any dramatic development. But noteworthy were Gorbachev's remarks that indicated he would face the territorial issue squarely, and the fact that he personally confirmed his visit to Japan next year.

When he met then Foreign Minister Sosuke Uno, last May, Gorbachev made a disappointing suggestion that the territorial issue be shelved, comparing it to Takeshima and the Senkaku Islands, the territories over which Japan has disputes with South Korea and China respectively. In contrast, Moscow now seems to be studying seriously a new policy toward Japan.

Also noteworthy is the fact that in the course of endeavor for improvement, Japan's plan for expanded and balanced ties with the Soviet Union and the continuing steady bilateral talks at the working group level on a peace treaty are gradually producing results.

The five-point expansion plan, including the promotion of business relations, wider exchanges of people and Gorbachev's visit to Japan, that Japan presented at a foreign ministers' meeting last May, has been well received by the Soviet side, which has since sent an economic study group and a Supreme Soviet delegation.

The new eight-point plan on business and the exchange of people, which Abe proposed on his Moscow visit, contains specific measures to improve relations in a number of areas in addition to settling the territorial issue. Gorbachev has indicated his consent to the plan, and we hope that it will be carried out successfully.

As Prime Minister Toshiki Kaifu has made public Japan's intention to help Eastern Europe, it is becoming increasingly apparent that a settlement of the Northern Territories question will essentially be tied to arms reduction in Asia and the Pacific. How these changing surroundings will influence Japan-Soviet ties needs careful analysis.

Now more than ever, Japan is called upon to assess the international situation from a wide-range perspective. The country now needs to mobilize its full diplomatic resources to deal with Moscow.

Minolta Sets Up Joint Venture in Soviet Union

OW1901195590 Tokyo ASAHI SHIMBUN in Japanese 19 Jan 90 Morning Edition p 8—FOR OFFICIAL USE ONLY

[Text] The Minolta Camera Company announced on 18 January that it set up a Japanese-Soviet joint venture sales company in the Ukrainian Republic. Aimed at securing a marketing base in the Soviet Union by making the best of the country's economic reform mood, the joint venture will import and sell consumer goods like watches and foodstuffs from Western nations as well as copying machines and cameras from Minolta.

The joint venture company, named "Minolta Trading Ukraina," will be capitalized with 3.15 million rubles (about 500 million yen). Minolta will contribute one-third of the capitalization through a subsidiary sales company in Austria. The remaining two-thirds will be borne by the Ukrainian Republic's Foreign Trade Public Corporation "Ukraina Varyut Turg" [name as published]. An agreement on the deal was made in December last year.

Businesses of the company are to import products from Europe and Japan and sell them wholesale or retail in the Ukrainian Republic. The public corporation, which is the Soviet partner in the joint venture, is currently operating 21 dollar-based stores in the republic. These stores will also be taken over by the joint venture company.

Increase in Export of High-Tech Goods to USSR

OW2001221790 Tokyo NIHON KEIZAI SHIMBUN in Japanese 20 Jan 90 Morning Edition p 4—FOR OFFICIAL USE ONLY

[Text] Machines, communications apparatus, cars, and other goods have become the main items that Japan exports to the Soviet Union. Exporting such goods as general machines, electrical appliances, and transportation machinery and tools have been increased. High-technology oriented goods amounted to 44.9 percent of Japan's overall exports to the Soviet Union in 1989. This exceeded the export percentage (28.1 percent) of metal goods, which have been the main traditional export items, by a large margin. The Coordinating Committee on Multilateral Export Controls (Cocom) has been restraining the export of high-technology products. However, Japan's export structure is gradually changing in the wake of the relaxation of tension in East-West relations. The export amount has also increased to $6.8 billion, reaching the level of $6 billion for the first time.

The amount of exports and imports in Japanese-Soviet trade totalled $3.8 billion and $3 billion respectively in 1989. Although the trade imbalance was significantly improved as compared to that of 1988 ($300 million in Japan's surplus), the overall increase of imports and exports amounted to only 1 percent.

While the export of such metal goods as steel, which was previously the largest export item, dropped by 34.2 percent from the previous year, the export of heating and cooling machines—such as air conditioners, and general machines—such as centrifugal separators, increased by 23.8 percent. The export of electrical appliances, including television sets and video tape recorders increased, rising to 32.1 percent. The export of transportation machinery and tools—such as cars, and precision machines—such as photocopiers, also sharply increased.

Europe

Kaifu Comments on Results of European Tour

OW1801134290 Tokyo ASAHI EVENING NEWS in English 17 Jan 90 p 1—FOR OFFICIAL USE ONLY

[Text] Budapest (ASAHI SHIMBUN)—Prime Minister Toshiki Kaifu made it clear on Tuesday night that he would take responsibility by stepping down if his ruling Liberal-Democratic Party should fail to win a majority of Lower House seats in the February election.

Talking with reporters who accompanied him as he made the 11-day eight-nation Europe tour at a hotel here, Kaifu remarked, "Politicians must take responsibility for results."

After winding up his trip in Hungary, Kaifu is to return to Tokyo on Thursday.

The prime minister also said he would not stick to his earlier stand that the Lower House dissolution should come only after he delivered a policy speech and interpellations on the speech by various party representatives were made.

"The Diet schedule should be decided through negotiations among the ruling and opposition parties," he said, making it certain that the Lower House will be dissolved for election immediately after the regular Diet session is reconvened after the year-end and New Year recess.

Kaifu did say, however, that he personally preferred to dissolve the House after the policy speech and interpellations on it "as the constitutional parliamentary system calls for."

Kaifu said his goal in the Lower House election is to win a simple majority of the House seats. He said that popular support for the LDP should now be rising.

The prime minister disclosed that he had studied a plan to go from Hungary to the United States for an emergency meeting with George Bush, but had given up the plan because of his domestic political schedule.

He said he was instead dispatching a senior Foreign Ministry official to Washington to brief Bush and other American leaders on the outcome of his Europe tour.

Kaifu also disclosed his wish to visit the United States as early as possible after the Lower House election to hold talks with President Bush.

The prime minister apparently wants to stabilize Japan-U.S. relations further as bilateral trade friction is likely to become serious in March due to the structural impediments initiative (SII) talks.

His planned U.S. visit is likely to take place during the holiday-studded Golden Week in May.

Editorials View Kaifu Tour of European States

Tour Termed 'Publicity Stunt'

OW1901195690 Tokyo ASAHI EVENING NEWS in English 18 Jan 90 p 7—FOR OFFICIAL USE ONLY

[Editorial: "Kaifu's European Jaunt"]

[Text] Prime Minister Toshiki Kaifu has just completed his tour of Europe.

His schedule was so crowded that on some days he met with the leader of one country in the morning and conferred with a different head of state in the afternoon—a situation that makes us wonder if he was really able to discuss anything of substance. Some Western journalists actually noted with sarcasm that the whole exercise may well have been nothing more than a pre-election publicity stunt by Kaifu.

In Europe, however, the Iron Curtain has just come down, and the "one Europe" feeling is mounting. If Kaifu's visit contributed in any way to diminishing East-West barriers in the world view of people, it was well worth it.

In Poland and Hungary, the prime minister promised economic aid totaling $1.95 billion. The sum will cover relief supplies of food, technological cooperation, yen-based loans toward a currency stabilization fund, Export-Import Bank loans, and the underwriting of deferred-payment export insurance.

In the past, Japan's foreign aid was always directed toward developing countries. Now this pattern has changed. Both Poland and Hungary have strongly requested economic support from Japan, and Japan should by all means do everything it can to help these countries rehabilitate their economies. However, these aid programs should be executed cautiously, with the following points in mind.

First, the primary purpose of providing economic assistance is to alleviate the hurdles that the recipient must overcome in becoming self-sustaining. It is vital to remember that giving aid is not giving fish, but rather a fishing net with which to catch fish.

Second, Japan must not ignore Western Europe and the United States. Some West Europeans already suspect that Japan has an ulterior motive in extending aid to

Eastern Europe-namely, eventual domination of the local economy. Japan must guard carefully against any action that might justify that suspicion.

On the other hand, Japanese taxpayers are not likely to support any aid policy prescribed to the nation by its Western allies. The programs for Eastern Europe should feature elements that are distinctively Japanese in terms of environmental and cultural considerations.

Opposition parties have been severely critical of Kaifu's European tour. Japan Socialist Party (JSP) Chairwoman Takako Doi rapped the prime minister's "lack of philosophy or policy" and expressed her grave doubts about Kaifu's "diplomacy of merely dispensing money liberally." And Clean Government Party (Komeito) Chairman Koshiro Ishida commented: "At this moment, the prime minister should be working much harder at promoting disarmament and creating an environment of peace in Asia, rather than visiting Eastern Europe."

With a general election coming up soon, opposition leaders naturally wanted to stop Kaifu from gaining points for his ruling party with his publicity stunt. But even if their claim smacks somewhat of petty envy, they are nevertheless quite right in pointing out that perhaps all Kaifu did in Eastern Europe was play "rich uncle."

Kaifu reportedly toyed with the idea of visiting the United States on his way back from Europe to confer with President George Bush. This indicates that the prime minister probably was at least aware of the fact that Europe is merely one part of the world order, and that for him to earn praise for his diplomatic acumen, he had to put changes in Europe in the overall context of superpower relations.

In that sense, we held our breath, so to say, to hear what sort of new diplomatic vision he might outline in his address in Berlin.

The result, however, was plainly disappointing. He revealed some oratorical skills, but the speech itself contained little substance, let alone any specific diplomatic vision.

Toward the end of his stay in Europe, Kaifu attended a discussion session with university students in Budapest. Said one student who asked him good, sharp questions: "He didn't really answer my questions." Another said, "He was very diplomatic."

"Diplomatic" here implies glibness and superficial affability. We don't need a leader whose diplomatic skills stop there.

Comments Baffle Foreign Ministry

OW1901173390 Tokyo ASAHI EVENING NEWS in English 18 Jan 90 p 3—FOR OFFICIAL USE ONLY

[Text] Statements by Prime Minister Toshiki Kaifu in Europe that he will meet a Chinese Politburo member upon his return to Japan have Foreign Ministry officials puzzled, a ministry source said Wednesday.

The source said he knew nothing about a visit to Japan by Li Tieying, a member of the Chinese Communist Party's Political Bureau. "We haven't even had contact with the Chinese side," he said.

Kaifu, who was to return from Europe Thursday afternoon, told reporters in Budapest Tuesday that Li will visit Japan in February.

Li, head of the State Education Commission, negotiated with pro-democracy student demonstrators in Beijing just before the military crackdown on the protestors last June.

High-level contacts with China have been suspended by Japan in line with a proclamation issued last summer by the summit of the seven industrialized nations.

The Foreign Ministry is classifying a visit by Chinese State Planning Commission Minister Zou Jiahua, who arrived Tuesday, as an "extraordinary measure." It is the first by a senior Chinese official since the crackdown.

Kaifu also said he would meet Zou on his return.

Tour Praised as Success

OW2201144790 Tokyo MAINICHI DAILY NEWS in English 21 Jan 90 p 2—FOR OFFICIAL USE ONLY

[Editorial: "Dialogue With Europe"]

[Text] A whirlwind tour of Europe was made by Prime Minister Toshiki Kaifu who visited eight countries in 10 days. Although the time was very limited, the journey was significant in that the prime minister was able to make a direct observation of the European continent where momentous changes are taking place.

The approaching general election in Japan was undoubtedly in his mind but good timing was shown in seeking a "dialogue with Europe" and in making Japan's views better known in the international society.

The main objectives of the visit were, first of all, to emphasize Japan's intention to contribute to the building of a new international society. Secondly, mutual confirmation was sought of the indispensability of tripolar cooperation among Japan, the United States and Europe.

The visit could also be called the starting point of a new Japanese diplomacy, with such problems faced as the slowness in the easing of tension in the Asia-Pacific region and the creation of an environment for the improvement of Soviet-Japanese relations.

It was not possible, of course, for a hurried visit to achieve all the desired objectives. Nor can understanding of Japan by Europe and international society be gained at one stroke.

The important thing is that in the midst of both the people's anticipation and anxiety regarding the framework of a new international society, the visit might well provide a clue to the problems in European-Japanese relations and what should be done to set an unerring course for Japan.

The prime minister pledged support for Poland and Hungary by offering loans and other aid totaling 1,950 million dollars. The European side will probably welcome this as "Japan's contribution to the peaceful change of the East-West relationship."

Different views might be expressed, however, concerning a political role by Japan. A deep-rooted feeling of vigilance toward Japan is apparent. As the background for this, Japan with its economic power is being seen not so much as a cooperating partner but rather as a tough rival.

Continued efforts are therefore essential to make known that Japan's intent is to have the same values as Europe and to follow the path not of confrontation but of cooperation.

The speech that Prime Minister Kaifu delivered in Berlin, the first stop on his itinerary, could also be called indicative of the first year of Japan's new diplomacy. At the same time, it would have been more desirable to have the philosophy of Japan's diplomacy clarified further.

With the visit providing an impetus, there is a need to clearly set the direction to be taken by Japan within the framework of the philosophy of international politics. The international sense and viewpoint that the prime minister must have gained from his visit to Europe should be activated as much as possible in many fields, including the new development of Soviet-Japanese relations.

Japan's contribution and the promotion of European-Japanese cooperation that the prime minister spoke of in his meeting with the leaders of the countries visited should be put into action. How this will be done is a big and important problem for the future.

Numerous problems lie ahead, including the most effective way of giving support to Easter Europe and how to maintain a balance with the aid given hitherto to developing countries in the past, together with the environmental problems which have expanded on a global scale.

Shift in Policy Focus

OW1901053990 Tokyo THE JAPAN TIMES in English 18 Jan 90 pp 1, 2—FOR OFFICIAL USE ONLY

["Analysis" column by Hisane Masaki, staff writer: "Focus on Europe Marks Change in Foreign Policy"]

[Text] Budapest—Prime Minister Toshiki Kaifu's whirlwind trip of eight European nations marked a major shift in a Japanese foreign policy that previously focused mainly on relations with the United States and Asia-Pacific countries.

Kaifu visited West Germany, Belgium, France, Britain, Italy, Vatican City, Poland and Hungary during his 11-day tour.

In meetings with European leaders, Kaifu repeatedly expressed a strong desire for closer bilateral relations.

The shift in Japan's foreign policy has been necessitated by rapid changes in both Western and Eastern Europe, as well as the pending economic integration of the European Community in 1992.

Japan foresees being one of three pillars, along with the U.S. and Europe, in supporting a new global order to follow the cold war era.

A government source said Tokyo's emphasis on relations with Washington has resulted in weaker ties with other nations.

The time has come for Japan to adopt a "more balanced and broader-based" foreign policy, the source said. "Kaifu's European trip marked the start of such a new foreign policy."

The prime minister was greeted warmly in Poland and Hungary, reflecting the desire by the two East European nations for increased Japanese economic assistance, especially direct investment in industries, to boost ongoing reform efforts.

Japanese firms are still generally cautious about rushing into Poland and Hungary, as well as other Eastern European nations.

Political Posturing

Kaifu's trip was widely tipped in Japan as being a move to bolster his fragile political standing, and to raise support for the ruling Liberal-Democratic Party before the Lower House election, expected to be held next month.

The trip appears to have done little to allay fears among some in Western Europe that Japan's economic might may be a destabilizing factor on the international scene.

Jacques Delors, president of the European Commission, told Kaifu he was "Dissapointed" with trade talks to date, apparently referring to the persistently high trade imbalance between Japan and the 12-nation European Community.

Japan's trade surplus with the EC more than doubled to $22.8 billion in 1988 from $11.1 billion in 1985.

In Paris, French President Francois Mitterrand told Kaifu that Japanese markets are still closed to foreign competition. He singled out price disparities between Japan and other countries as a main cause.

Mitterrand pointed out that imported goods are sold on Japanese markets at prices 25 percent higher than on overseas markets. He expressed concern that economic and trade problems could have political consequences.

Edith Cresson, the French minister for European affairs, termed Japan an "adversary that wants to conquer the world."

Cresson made the remark in an interview with a French newspaper published only hours before Kaifu arrived in Paris.

Increased Role

Kaifu claimed during a press conference in Budapest on Tuesday that West European leaders had agreed to an increased role for Japan in the process of renewing world stability.

But at the same time, Kaifu acknowledged that some West European leaders urged him to make further efforts to open Japanese markets and cut the country's huge trade surplus.

Most Europeans support Japanese initiatives for Poland, and Hungary, which Kaifu said would receive a total of $1.95 billion in aid, Japanese officials claim.

But it appears Western Europe's leaders, including Delors and Mitterrand, sent Kaifu a clear message: Japan must do more on economic and trade matters if it wants to forge closer links with Europe.

In addition to opening its markets, Japan can do much by playing a major role in maintaining and strengthening a world free trade system, especially through successful completion of the current Uruguay Round of world trade liberalization talks.

But on farm trade reform, a major source of conflict, Japan remains adamantly opposed to importing even a single grain of rice for food.

Tokyo's seriousness about closer links with Western Europe will be tested by actual deeds, not words.

EC To Accept Proposal To Set Chip Base Prices

OW1401195890 Tokyo JIJI in English 1342 GMT 13 Jan 89—FOR OFFICIAL USE ONLY

[Text] Brussels, Jan. 12 (JIJI PRESS)—In a move that would settle the Common Market's three-year-old semiconductor trade fuss with Japan, the permanent representatives of the 12 European Community (EC) members have agreed to accept a proposal by Japanese chipmakers to set floor prices for their EC-bound products, an informed source said Friday.

The agreement is to become effective and the final EC policy automatically unless the EC Council of Ministers voices opposition within one week, said the source close to the 12-nation trading bloc.

The EC move came in response to a previous Japanese overture suggesting six chipmakers, including Nec Corp., would sell their dynamic random access memories (drams) in the EC markets at prices no less than production costs plus a profit margin of 9.6 pct.

Nec and five other makers, all leading the Japanese semiconductor industry, made the joint proposal last year following the EC commission's investigation launched in 1987 into European industry charges that Japanese semiconductors were being dumped in the EC markets at unfairly low prices.

The European complaint resulted from a sudden inflow of Japanese drams with a combined share for Japanese memories climbing to 70.5 pct in 1987 from 24.6 pct in 1983. Japanese makers still control more than 50 pct of the EC's dram market.

The Japanese pricing restraint, due to be effective for five years, is subject to a review at the end of 1991, when the U.S.-Japan semiconductor trade agreement expires. It was previously known that Matsushita Electric Industrial Co. and four other Japanese chipmakers, that have not so far faced dumping charges, will follow suit by adopting the same floor price system.

Industry sources say that these Japanese makers would incur no substantial damage from the new formula, noting current prices of their chips are set above expected floor rates.

* East Europe Business Venture Environment Changes

902A0044A Tokyo NIHON KEIZAI SHIMBUN in Japanese 23 Nov 89 p 13—FOR OFFICIAL USE ONLY

[Interview with Mitsui & Co. Chairman Toshikuni Yahiro by unidentified interviewer; date, place not given]

[Text] **Interview Focus: Mitsui & Co. Chairman Toshikuni Yahiro Possibilities for Business in Eastern Europe; Changing From a View of a "Separate Framework"**

The large wave of democratization and economic reform is washing over Eastern Europe. On the heels of Poland and Hungary, the Berlin Wall which separated East and West Germany crumbled. Political democratization is linked to economic liberalization. Economic relations with Eastern Europe, which is a remote and small market for Japanese business, are expected to expand rapidly.

We asked Mitsui & Co. Chairman Toshikuni Yahiro, who is also the Trade Section Chairman of the Japan-GDR (East Germany) Economic Committee and the Chairman of the Soviet Union-Eastern Europe Trade Association, about the possibilities for business in Eastern Europe.

[NIHON KEIZAI SHIMBUN] How do you view the trend in Eastern Europe towards democratization?

[Yahiro] At the Japan-GDR Economic Committee, East German Foreign Trade Minister Beil and others said that single party rule is bad. They are going to adopt a system that takes into account the voice of the people. They seem to be considering incorporating the good points of liberal economics. If detente proceeds further at the U.S.-Soviet summit talks next month (in other words, an easing of tensions), this trend will probably accelerate.

[NIHON KEIZAI SHIMBUN] Were there specific economic cooperation requests from East Germany at the committee sessions?

[Yahiro] They requested Japan's cooperation in increasing its tourists to 30,000 a year. About 600,000 tourists from Japan visit West Germany each year. In contrast, no more than around 18,000 visit East Germany. If traffic between East and West Germany could move freely, about half of the tourists visiting West Germany would probably go to visit East Germany also. East Germany is also full of historic places. If a system for issuing visas could be arranged, the tourists from Japan would probably amount altogether to 200,000 to 300,000.

[NIHON KEIZAI SHIMBUN] Are business transactions increasing?

[Yahiro] The amount of trade with East Germany was about $350 million in 1983. That was the peak. This year it will only be about $100 million. COCOM (Coordinating Committee on Export Contols) restrictions towards CEMA (Council for Mutual Economic Assistance) have become a barrier. East Germany is seeking Japanese high technology such as electronics, industrial robots, energy saving devices, and anti-pollution equipment. In particular, it is seeking the transfer of industrial technology. If exchanges between East and West Germany proceed apace, the COCOM restrictions are liable to be forgotten. The U.S.-Soviet summit talks may lead to surprising developments.

In the case of East Germany, it is seeking Japan's cooperation in third country trade with a view to the 1992 EC (European Community) market integration. I would like it to determine the objectives of its requests to Japanese businesses and then respond one by one. However, we need to solve the problem of taking back goods which have been purchased through counterpurchases (collateral imports).

[NIHON KEIZAI SHIMBUN] There are also countries like Poland and Hungary which are accumulating debts. How is Japanese business investment in Eastern Europe proceeding?

[Yahiro] Even though the Japanese side would like to invest, there is the precondition of preparing a legal environment suitable for inducing foreign capital, such as an investment protection agreement. Zero risk is not possible when private firms invest. However, if government credit is not provided, large-scale investment will not move forward. The Japanese Government is very positive about assistance to Eastern Europe. At one time there was a problem with providing the plant and equipment to produce Daihatsu passenger cars in Poland, and I believe that discussions on a coordinating financing group are moving forward.

[NIHON KEIZAI SHIMBUN] Won't the situation in Eastern Europe have an impact on EC market integration?

[Yahiro] It is possible that a great European market will take shape. Up to now, Eastern Europe had been considered in a separate framework, only as the Communist bloc. The fence between the EC and Eastern Europe is coming down, and there is the possibility that it will become one market. The use of the dollar in settling accounts is beginning to be considered. The view of placing Eastern Europe in a separate framework is changing.

[Boxed item] Note by NIHON KEIZAI SHIMBUN Industry Section Deputy Chief Shinichi Ozeki

One Word: Lage-Scale Investment Activities

Eastern Europe is remote for Japanese businesses. For example, there are no more than eight joint venture companies between Japan and Eastern Europe, with four each in Hungary and Bulgaria. However, when viewed in terms of geographical distances from Japan, Eastern Europe is closer than Western Europe. The focus of business for Japanese managers has been Western Europe, and Eastern Europe was the reverse, an area that was distant in the consciousness of businessmen who looked at it as on the other side of the Soviet Union.

As Chairman Yahiro points out, we are in an era in which the view of the economic bloc as a system is changing. Recently, large-scale investment has moved forward as in the case of Suzuki Motor Co., whose joint venture production in Hungary is in the final stages of negotiation before settlement. The attempt once again to restore the possibility of investment by abandoning fixed prejudices is linked, along with the strengthening of an investment environment including the reopening of investment protection agreements and government credit provision, to the exploration of a new market. That is also one means of easing the EC's criticism of Japanese investment, which is that Japan invests in specific regions with what resembles a torrential downpour.

Inroads Into E. Europe by Japanese Firms Described

OW1801084890 Tokyo THE JAPAN ECONOMIC JOURNAL in English 20 Jan 90 p 13—FOR OFFICIAL USE ONLY

["Industry" column article by Kyoto Itoh, JAPAN ECONOMIC JOURNAL staff writer: "Firms Rush Into Eastern Europe 'Void'"]

[Text] In what some major Japanese trading houses would perhaps call an understatement, Osamu Suzuki, president of Suzuki Motor Co., proclaimed Eastern Europe "a potential market." He made the remark during his announcement Jan. 9 that the Japanese automaker will participate in a joint-venture project in Hungary.

C. Itoh & Co., the leading Japanese trading house, played an active role as middleman in the Y20 billion deal. It is a role other trading firms hope to play with more frequency in the future.

The nine major Japanese trading houses have about 70 people based in six East European countries—East Germany, Poland, Czechoslovakia, Hungary, Romania and Bulgaria—and the number is increasing steadily.

On Jan. 1, Nichimen Corp. reopened its Prague office, which had been closed since March 1983.

Nissho Iwai Corp. has a general manager in Vienna to handle its East European business. C. Itoh, with 14 employees in the region including one in Yugoslavia and two in Austria, is considering restoring its staff level to about 30, the number it had there in the 1970s.

A total of $1.95 billion in economic assistance to Hungary and Poland, announced by Prime Minister Toshiki Kaifu in West Berlin on Jan. 9, is expected by analysts to provide new opportunities for Japanese firms in the Eastern bloc.

At present, Hungary offers the most attractive investment climate, says Katsuhiko Adachi, general manager of Toyo Menka Kaisha Ltd.'s Soviet and Eastern European office.

"Hungary is trying hard to acquire more foreign reserves, which makes the business environment in that country better than in others" says Adachi.

Some also see Poland as attractive, pointing out that although the nation suffers a heavy external debt, individual Poles are believed to hold a substantial amount of Western hard currency.

Tsuneaki Sato, professor of economics at Nihon University, says Czechoslovakia looks even more promising with its well-established industrial infrastructure.

However, current trade between Japan and the six East European countries is amazingly small. Total exports during January to September 1989 accounted for 0.23% of Japan's total exports on a customs clearance basis, or about $469 million out of $205 billion. Imports during the same period accounted for 0.35%, or $551 million, of Japan's total imports of some $155 billion. The bulk of Japan's purchases from Eastern Europe consists of agricultural and marine products, steel and aluminum, while it exports mostly machinery to the region.

Despite changing political realities, these figures will not rise dramatically, says Kiyoshi Tanigawa, director of the Ministry of International Trade and Industry's Soviet Union and Eastern Europe office. Even in 10 years' time, trade with Eastern Europe will still be below 1%, he adds. Hidetoshi Kamezaki, deputy general manager at Matsubishi Corp., also expects the volume to stay almost unchanged at least for the next few years.

There are many products that East European countries want to buy, but they lack the foreign reserves to do so. The opposite can be said for Japan. "Our country has little need for the products currently being produced in Eastern Europe," Kamezaki says.

What trading houses are aiming at for the time being is not bilateral transactions, but an intermediary role among East European countries or East and West European nations, says Takashi Murakami of the Institure for Soviet & East European Economic Studies. But in the future the region, with its strengthening ties to the European Community, will become more strategically important. Japanese trading houses want to be in place and ready for that, an industry analyst says.

Business in East Europe by Japanese Firms (including deals under negotiation)

Hungary	
Kyowa Hakko Kogyo Co.	l-lysice production
Taiyo Kobe Bank Long-Term Credit Bank of Japan	22% stake in Central-European International Bank
Furukawa Electric Co.	polyethylene foam sheets production
Suzuki Motor Co.	automobile production
Bulgaria	
Toyo Engineering Corp.	electronic plant
Asahi Glass Co.	plate glass production
Czechoslovakia	
Juki Corp.	consigned production of sewing machines
East Germany	
Toyo Engineering Corp.	petrochemical plant equipment
Poland	
Toyo Menka Kaishi Ltd.	cement production
Asahi Glass Co.	plate glass production
Daihatsu Motor Co.	automobile production

Paper Calls for Simplifying Cocom Regulations

OW1201154590 Tokyo NIHON KEIZAI SHIMBUN in Japanese 9 Jan 90 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Editorial: "Simplifying Cocom Regulations Is a Demand of the Times"]

[Text] With the reforms sweeping the Soviet Union and Eastern Europe as the occasion, a move is afoot in the United States and the European Community (EC) to review the rules imposed by the Coordinating Committee for Multilateral Export Controls (Cocom), designed to maintain a gap between the East and West in strategic and productive capabilities. Japan, whose prime minister is scheduled to tour Eastern Europe, should be active in taking the lead to support simplification and rationalization of the Cocom rules, thus carrying Japan's economic and technological cooperation with Hungary and Poland to fruition.

To Japanese, a mention of the Cocom rules brings back the memory of the 1987 Toshiba Machinery incident. Out of a self-examination over the incident, the Japanese Government strengthened controls over the export of strategic materials and technologies by revising the Foreign Exchange and Foreign Trade Control Law and having export industries prepare their compliance programs. At Cocom meetings, the curtailment of the scope of controls has lately been taken up, but, as far as Japan is concerned, there is a strong impression that controls on the export of strategic materials and technologies have become more stringent.

In view of the latest developments in world politics and in technological progress, however, it should be safe to say that it is a demand of the times to ease the Cocom rules, which presuppose East-West confrontation, to impose minimum limits on the materials and technologies, as well as countries subject to the controls, and to simplify and rationalize concrete procedures.

The situation in the Soviet Union and Eastern Europe, as symbolized by the removal of the Berlin Wall, signifies that the cold war between the East and West has been terminated, and that the Soviet Union and East Europe are seeking economic and technological cooperation with the West for their economic rehabilitation. In reality, however, the Warsaw Pact Organization continues to exist, and, thus, in military terms, the situation has not reached a point where the Cocom controls can be removed all at once. But, the easing of the Cocom controls is indispensable for the Western nations in promoting economic and technological cooperation with the East.

The scheduled integration of the EC markets in 1992 also poses a problem on the question of how the Cocom controls should be. There are differences among the EC member countries in export controls on strategic materials and technologies, and it will be difficult to keep the complicated and wide-ranging controls as they now are after integration. Since last year, a move has been observed in the United States and Britain favoring the easing of controls over the West's export and import of strategic materials and technologies. Such easing of export and import controls inside the West should be further accelerated.

There have been several instances in recent years in which ultramodern technology, called high technology, has been created, irrespective of military technology, and later applied to weapons. There also is an increase in the number of high-tech countries and areas, such as the ROK and Taiwan. Because of this, if the net of Cocom controls is spread over civilian-use high technology on a broad basis, there would be an increased chance of the technology reaching the East. There may even be a hegemonic struggle among the Western nations over high-tech industry. Thus, distrust of the Cocom itself would be something to be feared.

The situation encompassing the Cocom controls has drastically changed. Therefore, in order to keep the Cocom controls intact in the future, it is necessary to limit the controls to a very select number of high technologies and countries applicable in a manner convincing to the Cocom member countries and cooperating nations. In the United States, leader of the Cocom, the Export Control Act, which is the basis for the Cocom controls, is to expire this coming September. We hope that a new act will take this direction.

Editorial Urges Comecon To Adapt to Changes

OW1401072590 Tokyo THE JAPAN TIMES in English 13 Jan 90 p 20—FOR OFFICIAL USE ONLY

[Editorial: "COMECON Moves to Changes"]

[Text] With the agreement of its 10 member nations in the Bulgarian capital of Sofia this week that the Soviet-dominated COMECON trading bloc requires drastic transformation, one more structure of Stalinist communism has crumbled. COMECON, or the Council for Mutual Economic Assistance, was founded in 1949 to bring the economies and the trade of the Soviet Union's East European satellites under Moscow's firm control.

From the start, the organization was doomed by centralized planning, arbitrary price setting, allocation of production among its members and by being tied to the Soviet ruble as its exchange currency. Furthermore, much of its trade was conducted by the inefficient barter system.

With the demands for democracy and a free-market economy sweeping Eastern Europe, it is not surprising that COMECON came under increasing attack from members like Poland, Hungary and Czechoslovakia for dealing in shoddy, unwanted goods and for its domination by the Soviets. And yet it was Moscow itself, under the leadership of President Mikhail Gorbachev, that took the lead in calling for COMECON to be restructured into a trading bloc based on a convertible currency and world prices.

Agreeing on the need for the organization's thorough overhaul this week, the members set up a commission to draft recommendations for change, possibly as early as this spring. But divisions within its ranks remain on how extensive the reforms should be and how soon they should be implemented.

Czechoslovakia, with an economic base strong enough to survive free-market pressures, insisted on quick and complete change, and even called for the dumping of nearly all restrictive COMECON rules and for bilateral trading agreements within the group. Hungary, for all its recent liberalizing, did not push so hard for quick reform, probably because of its unstable political situation prior to free elections this spring.

Despite their calls for a revolutionary new role for COMECON, the Czechs are not eager to be free of subsidized Soviet oil. Moscow wanted to turn off the supply in 1991, but in response to Czech pleas for a five-year transition offered three years, which was accepted. And yet Prague has warned it will pull out of COMECON entirely if it is unsatisfied with the reforms recommended by the commission.

Among bloc members, Bulgaria and Romania are suffering the worst economic crises and clearly need the support of both COMECON and the West. They stand to suffer most from a hasty conversion of COMECON into a free-market trading group. And in the communique issued at the end of its meeting, the bloc promised special treatment for the developing economies of its three non-European members—Cuba, Mongolia and Vietnam. Hardline Cuba expressed satisfaction with the outcome of the meeting but it warned the other members against aping capitalism and making private enterprise "the main rule in society."

Yet with the now irreversible moves toward democracy and a market economy in Eastern Europe, that advice almost certainly will be ignored. Bulgarian Premier Georgi Atanassov enthusiastically hailed the Sofia meeting as a "new start with new rules," and Soviet Premier Nikolai Ryzhkov expressed Moscow's happiness with it because it meant COMECON has a future. Mr. Gorbachev, he said, hoped to see COMECON become a tariff-free, single market to rival the European Community in 1992.

But could COMECON be converted into a trading bloc economically strong enough to rival the EC in any way? At most, it might be only a weak counterbalance. Some Western critics predict an even bleaker future, believing that COMECON has been dead for years and only needs formal burial. Hungary, Poland and Czechoslovakia may eventually break from the group. They are already discussing a proposal to link their economies in a free-market arrangement.

Intense rivalry for Western investment and markets can be expected among Eastern Europe's newly opening economies. Interference by COMECON will be less than welcome. And yet the agreement reached at Sofia was for renovation, not dismantlement. The bloc helps to support the economies of some of its weaker members and a quick severing of the links of four decades could have serious repercussions. In a time of such rapid change in Eastern Europe, COMECON really has no choice but to adapt and adjust to the reforms under way or be discarded as another communist experiment that failed.

MITI To Invite 20 Hungarian Technical Trainees

OW1301183690 Tokyo YOMIURI SHIMBUN in Japanese 10 Jan 90 Morning Edition p 6—FOR OFFICIAL USE ONLY

[Text] In view of the basic agreement reached on the car manufacturing joint venture between Suzuki Motors and Hungary, the Ministry of International Trade and Industry [MITI] decided on 9 January to invite on behalf of the Japanese Government 20 key Hungarian managers, who will be working in the joint venture plant as technical trainees. This will be implemented as part of the policy to aid East Europe, as indicated by Prime Minister Kaifu in his ongoing European trip. The MITI is also taking a positive attitude toward the 7 billion yen loan from the Export-Import Bank requested by Suzuki Motors and toward the issue of COCOM [Coordinating Committee on Multilateral Export Controls] restrictions.

According to the government aid plan for Poland and Hungary, a total of 875 trainees will be accepted from the two countries in the next 5 years, starting this year. MITI has set aside 20 slots for the joint venture with Suzuki Motors. The trainees' travel and other expenses will be shouldered by the government, in the hopes that this will contribute to the success of the joint venture.

The MITI has also expressed optimism on questions such as underwriting trade insurance, Export-Import Bank loans, and COCOM examination, saying that "we still have to check the details of the project, but we have not found any thorny issues in our prior examination."

According to the MITI, there are at present 10 joint ventures with the East European countries (excluding the USSR): 4 each with Hungary and Bulgaria, and 2 with Yugoslavia. Among them, three are actually in operation, including the "Hungary Japan Fermentation Industry" funded by Tomen [Toyo Menka Kaisha Ltd] and Kyowa Hakko Kogyo Co, and the Central Europe International Bank operated by the Long-Term Credit Bank of Japan and Taiyo Kobe Bank Ltd. All three are joint ventures with Hungary.

Problems Facing Suzuki's Hungarian Venture

OW2201153990 Tokyo THE DAILY YOMIURI in English 21 Jan 90 p 1—FOR OFFICIAL USE ONLY

["Economic Forum" column article by Yoshio Matsui, YOMIURI SHINBUN economic editor: "Potholes Ahead for Suzuki-Hungary Car Deal"]

[Text] Suzuki Motor Co.'s joint venture project to produce passenger cars in Hungary calls for building a new plant costing about Y20 billion that will start producing the small passenger car Cultus from 1992. Targeted annual production is 50,000 units in 1995.

Negotiations between Suzuki and the Hungarians began 4 ½ years ago. After a pause halfway through their negotiations, the two parties speedily reached final agreement because of the rapid democratic reforms in East Europe and Prime Minister Toshiki Kaifu's visit to Hungary.

The project is certain to help Hungary modernize itself. The International Trade and Industry Ministry is ready to give full support to the project by underwriting trade insurance, while seeking a relaxation of Cocom [Coordinating Committee on Export Controls].

However, the project will run into difficulties at certain stages from the plant construction to the start of production.

One of the difficulties is an agreement that the local content rate will be raised to 50 percent one year after the start of production and to 70 percent in the future. Engines, transmissions and other main components may be imported from Japan but it is doubtful whether other parts can be procured easily in Hungary.

Another problem is that Hungary is eager to export the cars produced. The two parties avoided a specific commitment and only stated that efforts would be made to promote exports. But this problem is certain to be rekindled.

Suzuki is already producing passenger cars in Spain and other countries for export to European Community member countries. If Hungary starts to export cars, they will compete with those from Suzuki's other plants.

Suzuki wants to limit exports from Hungary to other East European countries only. But it is doubtful whether Hungary will go along with Suzuki's wishes.

Hungary's cumulative foreign debts came to $16 billion in 1988, the second largest after Poland. Hungary is therefore anxious to earn foreign exchange and is expected to press Suzuki on the export issue.

A further problem is relations with COMECON, the communist bloc's economic grouping. Among COMECON's members, the Soviet Union, Poland, East Germany, Czechoslovakia and Romania are producing passenger cars, while Hungary is manufacturing buses. Thus, an international division of labor exists in the sphere of mother vehicle production in the COMECON bloc. The joint venture between Suzuki and Hungary is something like a "revolt" against COMECON.

The COMECON system itself has begun to crack. But it will be difficult to ignore the reaction of other COMECON members. This problem will become serious, particularly when Hungary starts trying to export its cars to other East European nations.

All in all, we have to say that prospects for the joint project are not rosy. Other Japanese carmakers are prudently watching how the Hungarian venture will fare instead of rushing to follow suit.

Toyota To Export 2,550 Ambulances to Hungary

OW2101222290 Tokyo YOMIURI SHIMBUN in Japanese 16 Jan 90 Morning Edition p 7—FOR OFFICIAL USE ONLY

[Text] Toyota Motor Corporation has received an order for 2,550 emergency ambulances from Hungary. A formal contract for this order was to be signed in Hungary today. With economic liberalization, Hungary has formulated a long-range plan to replace its superannuated ambulances with new ones over the next 10 years, and Toyota fully supports the plan.

The contract is expected to amount to approximately 5 billion yen, one of the largest export agreements ever reached between an East European country and Japanese automobile industrial circles. Last week, Suzuki Motor Co. Ltd. also formally concluded a joint-venture passenger car production plan with Hungary. The signing of the Toyota contract during Prime Minister Kaifu's visit to Hungary will likely lead to strengthened economic relations with Japan.

Under the contract, Toyota will remodel its "Hi-Ace"—a commercial model vehicle with a 2,000 cc displacement (gasoline engine)—into an ambulance, and install blue revolving lights and other special equipment for use in Hungary. It will then begin exporting the vehicles this coming spring. During the 1990-94 period, 1,300 units will be exported, with 250 units exported annually during the 1995-99 period, bringing the total number to 2,550 units.

The ambulances will be delivered to the Hungarian Ministry of Health and Social Welfare by the Hungarian Auto Parts Export-Import Co., which placed the order, and put to use wherever the need arises. Hungary is now using Polish-made ambulances, but they are prone to trouble because they are old and very superannuated, hindering emergency medical treatment. It is believed that Hungary decided to purchase highly efficient Japanese vehicles for that reason alone.

The Japanese automobile manufacturers' actual record of exports to Hungary in 1988 totaled only 375 units. Of this amount, only 50 of the units were Toyotas. Although the total number of Japanese automobile manufacturers' exports to the whole East European region exceeded 10,000 units for the same period, the situation was "mostly irregular and small-scale, single-shot exports," in the words of Toyota Motor Corp. They say that such a long-term, stable supply plan for the next 10 years, such as the present case, is unusual.

Toyota also exported 200 Corollas to the Soviet Union last year and plans to continue exporting them regularly in the future. The corporation intends to continue with its positive marketing strategy for the Soviet Union and East Europe in the days ahead.

China

Editorial on Lifting of Martial Law in Beijing

OW1401132690 Tokyo THE DAILY YOMIURI in English 13 Jan 90 p 6—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 12 January editorial: "China's 'Free Atmosphere'"]

[Text] Beijing's martial law was lifted midnight Wednesday, and at Tiananmen Square citizens and tourists are seen gathering as a seemingly "free" atmosphere returns to the city. Surely, no Beijing citizens would wish to see armed soldiers patrolling the city's streets again.

The martial law, proclaimed in May last year, led to June's military suppression of the pro-democracy movement in the square. It banned citizens from demonstrating and petitioning, and the military obtained powers to take decisive steps against those who violated the ban.

The PEOPLE'S DAILY reported that lifting martial law is a sign of China's stability. However, the Chinese Government expected its announcement to lead to eased criticism and resolve sanctions imposed by the West.

U.S. presidential aide Brent Scowcroft visited China last December and agreed on improved U.S.-China relations. China decided to lift martial law by Christmas Eve, but reportedly postponed it due to developments in Romania that led to renewed fears of instability.

Critical Stand

In view of such developments and the character of the martial law, it seems reasonable for us to positively evaluate the removal of martial law and react accordingly.

From an expectation that China learns a lesson, Western nations took a critical stand against the Tiananmen Square incident, saying the action cannot be tolerated from a humanitarian viewpoint.

But these nations at the same time hoped China would not isolate itself from the rest of the world, weighing up the country's geopolitical position and the role it can play in stabilizing international politics.

Although the Chinese leadership reaffirmed continuation of reform and open policies, it still maintains that the Tiananmen incident was a victory over counterrevolutionary violence.

But China by now must understand how the West will react to inhumane actions and how this will affect the country's economic development. The lifting of martial law can be understood in this context.

There is a danger that hard-liners will further their influence in the Chinese Government if Western countries continue to place China in a diplomatic dead end. It has been reported that conservative leaders resisted the lifting of martial law.

It is impossible to discuss construction of a new international order in the post-cold war era without taking China into consideration. There are many roles China can play in such issues as the peace process in the Korean peninsula and Cambodia, prevention of nuclear arms proliferation and environmental destruction.

Third Yen Loan

We think it is high time for the West bloc to start improving their relations with China. In fact, the United States recently approved export of a communication satellite to China.

A diplomatic source said that Washington and Beijing are also talking about how Fang Lizhi, who took refuge at the U.S. Embassy in Beijing, should be treated. The World Bank has also started considering resumption of loans to China.

Japan is scheduled sometime in January to resume discussions on the third yen loan to China. The yen loan is earmarked to improve living conditions for the Chinese.

We believe that Japan is taking positive steps by resuming cooperation with China, watching to country's situation and keeping harmony with the West. This will encourage China to carry out various reforms and an open-door policy in moves toward democratization.

Of course, Japan must continue to press the Chinese Government to observe and respect human rights.

Business Circles To Resume Endeavors With China

OW1301045590 Tokyo ASAHI SHIMBUN in Japanese 10 Jan 90 Morning Edition p 9—FOR OFFICIAL USE ONLY

[Text] In view of the moves toward the restoration of U.S.-China relations and the imminent lifting of martial law in Beijing, the Japanese business circles have started to gear up for the resumption of business with China. Toray Industries, Incorporated has recently agreed to export a synthetic fiber plant, while Hitachi, Limited has formally decided to provide technology for manufacturing videotape cassette recorders (VCR). On the other hand, preparations have also started for the production of soybeans for export in Heilongjiang Province by Nichimen Corp, which had been conducting a commercialization survey for the project, and for the development of liquefied natural gas (LNG) off Hainan Island by Nissho Iwai Corp. The above are all "pending" cases that were under negotiation before the Tiananmen Square incident last June. The government may send an economic cooperation survey team to China as early as the end of January, in line with the actual lifting of the suspension on the third yen loan. The financial sector has also started preparations for new loans to China, on condition that "loans to China be resumed at the World Bank Board of Directors meeting in late January." However, there are still those who are taking a cautious approach, saying that "along with the World Bank response, moves in the U.S. Congress later this month will also be watched" (according to the China office chief of a major trading firm).

Toray has decided to export a long polyester fiber manufacturing plant to the Shanghai Petrochemical Complex. The project involves a total of 2 billion yen and will be the first large-scale plant export after the Tiananmen Square incident. The contract for the deal was signed in May 1989, but implementation was delayed by the Tiananmen Square incident. Design and construction work are to start shortly.

Hitachi's supply of technology for manufacturing VCR's came under COCOM restrictions, but the contract was approved in April 1989 on condition that the precision of the machine tools involved be downgraded. The Tiananmen Square incident occurred while the contract was being revised to accomodate the condition, and thus implementation was also delayed. However, the Ministry of International Trade and Industry [MITI] has now granted its approval to Hitachi for export, based on the revised contract concluded with the Chinese side in late 1989. Consultations will now begin with China, and production is projected to start within the year.

On the other hand, Nissho Iwai will start with the second phase of its commercialization survey for the development of LNG off Hainan Island, a project to be undertaken as a joint venture among Japan, the United States, and China. It will investigate the accuracy of the figures of gas deposits and the needs of Japanese electric companies, who will be the consumers, in order to determine the prospects of the joint venture. In addition, Nichimen has also disclosed its intention to engage in a Japan-China joint venture to produce soybeans for export in Heilongjiang Province, for which it has been conducting experimental planting since May 1989.

The steel industry also welcomes moves to lift martial law. Following the Baoshan Steel Plant in Shanghai, a project to build a Japan-China joint venture comprehensive steel plant in Shijiusuo, Shandong Province, had been in progress, but this came to a standstill due to the economic readjustment after autumn 1988. At present, the five leading Japanese blast furnace companies, including Nippon Steel Corp, are reconsidering the project, together with an alternative plan to build the plant in Tangshan, Hebei Province, based on data provided by China. Nippon Steel President Hiroshi Saito gave the following comments: "We have great expectations on the lifting of martial law. The policy of economic readjustment is still being implemented, and it would not be wise to plunge into projects involving enormous investments. However, for the industry as a whole, I believe that an easier negotiation environment will evolve."

Meanwhile, private banking institutions have also started preparations while watching for the resumption of World Bank loans to China and the lifting of the suspension on the Japanese Government yen loans. The very first new loan to China is expected to be the 120 million dollars, to be jointly provided by the Daiichi Kangyo Bank, Limited, and three other banks for the building of a new ethylene plant (Qilu, Shandong Province), the basic agreement on which had been reached on 2 June 1989, just before the incident occurred.

The above cases which have been acted upon are all "pending" cases which were halted due to the Tiananmen Square incident. "If they are undertaken while considering the international environment, very little friction is expected" (said a source concerned with Japan-China economic relations). As to entirely new projects, the prevailing view is that "it is still too early." Moreover, some people think that "even if it is 'spring' in the international environment, business will not be in 'full bloom,' due to the domestic economic retrenchment policy" (says a top executive of a major trading firm).

New Organization To Promote Investment in China

OW1301042290 Tokyo THE JAPAN TIMES in English 12 Jan 90 p 10—FOR OFFICIAL USE ONLY

[By Hisane Masaki, staff writer]

[Text] Paris—A new Japanese organization will be formally inaugurated as early as this month to promote private investment in China, a government source disclosed here Thursday.

The source, who is accompanying Prime Minister Toshiki Kaifu on an eight-nation European trip, said the investment-promotion body will have private Japanese firms as its members and will be headed by Kisaburo Ikeura, chairman of the Industrial Bank of Japan.

The decision was made as Sino-Japanese relations started moving toward normalization in the wake of Beijing's declaration Wednesday to lift martial law.

The establishment of the investment-promotion body was agreed upon when Chinese Premier Li Peng met with then Japanese Prime Minister Noboru Takeshita during an official visit to Tokyo last April.

The body's formal inauguration was originally scheduled for June but has been postponed since the military suppression of prodemocracy demonstrators at Beijing's Tiananmen Square June 3-4.

The proposed body has been seen as important for the promotion of private investment into China. Also, Beijing has informally called on Tokyo to inaugurate the organization as soon as possible.

In a related move, the government source also said the first in a new series of regular talks between high-level Japanese and Chinese government officials in charge of science and technology will be held later this month.

That meeting was also agreed upon between the two countries during Li's Tokyo trip and was initially scheduled for last summer.

Japan is also expected to lift a freeze on new official economic assistance to China as early as later this month and plans to invite Zou Ziahua, head of the powerful Chinese State Planning Commission, to visit Tokyo Jan. 16-25.

Resumption of new government loans and contact with top-level Chinese officials like Zou mark a major departure from agreements reached at the Paris summit last July of government heads of seven major democracies.

The seven nations—Japan, the United States, Canada, Britain, Italy, West Germany and France—agreed at the summit to freeze new financial lending to China and also to ban high-level contact with that communist nation in protest against the massacre.

Work To Resume on PRC Investment Promotion Body

OW1401225790 Tokyo ASAHI SHIMBUN in Japanese 11 Jan 90 Morning Edition p 9—FOR OFFICIAL USE ONLY

[Text] An informed source on 10 January revealed that preparatory work will resume soon for establishing a "Japan-China investment promotion organization," which was suspended for an indefinite period in the wake of the Tiananmen Square incident. At the earliest, Japan Industrial Bank Chairman Kisaburo Ikeura, a representative promoter of its inauguration, will express Japan's intention to inaugurate the organization to Minister of the Chinese State Planning Commission (vice premier-class) Zou Jiahua, who is scheduled to arrive in Japan on 16 January. Kisaburo Ikeura will start adjusting the timing for its establishment and other details with the Chinese side.

The plan follows on the heels of signs that Japan-China relations are heading toward normalization, as evinced by the government decision to virtually remove the freeze on the third Yen loan to China and the lifting of martial law in Beijing. Although it would be a private organization, a decision on its establishment was made under the government's initiative. The Ministry of International Trade and Industry [MITI] is strongly addressing itself to its early inauguration, saying: "It can be a symbol of normalized relations."

The establishment of the Japan-China Investment Promotion Organization was planned as a point of contact to inform the Chinese authorities of investment-related troubles and complaints by Japanese firms and to negotiate with the authorities as a means of helping increase Japanese investments in China, which are now being held in check. The establishment plan was presented to Chinese Premier Li Peng during his visit to Japan last April as one of the main features of Japan-China economic cooperation, and the Chinese side was also supposed to establish a similar point of contact almost simultaneously. However, its inaugural general meeting, scheduled for 7 June, 1989, was suspended for an indefinite period because of the outbreak of the Tiananmen Square incident immediately before then. The Chinese side's point of contact also has not yet been established. However, the number of firms wishing to participate in the organization has continued to increase since then, and now it has reached nearly 100, including trading houses and banks.

In addition to freezing the third yen loan, the government has been suspending the underwriting of long- and medium-term trade insurance for China and freezing new loans by the Export-Import Bank of Japan. Among them, trade insurance and Export-Import Bank loans will likely be resumed, pending the lifting of a freeze on fresh loans by the World Bank currently expected for either late this month or next month.

The government seeks the announcement of the inauguration of the investment promotion organization prior to full-scale normalization of relations with China, because the establishment of the organization has become one of the projects which symbolize Japan-China economic cooperation, along with yen loans. The Japanese Government also hopes that private-level diplomacy will proceed because it cannot move protrusively in normalizing relations with China out of considerations for the U.S. Congress. The Tiananmen Square incident and the deterioration of the Chinese economy led to the loss of enthusiasm in investments in China on the part of Japanese businesses, and this, in turn, darkened the future of the Chinese economy. Hence, the government believes that an early inauguration of the organization will help the Chinese economy extricate itself from its present predicament.

Firms Remain Leery About Investing in PRC

OW1801070090 Tokyo THE JAPAN ECONOMIC JOURNAL in English 20 Jan 90 pp 1, 6—FOR OFFICIAL USE ONLY

[Article by Takayuki Kamada, JAPAN ECONOMIC JOURNAL staff writer: "Investors Welcome China's End to Martial Law, But Remain Leery"]

[Text] The lifting of martial law in Beijing on Jan. 11 may be China's first step toward normalizing relations with the West, but few observers here believe it will lead to a full-fledged return of Japanese capital into the country.

Japanese companies, always cautious about investing in China, are especially wary now that their huge neighbor's economy is reeling after seven months of sanctions by the West.

What's more, a severe shortage of capital there has put critical infrastructure projects on hold, and the tenseness of the political situation has only been underscored by the revolutions sweeping elsewhere throughout the socialist world.

Finally, business executives agree that resumption of full business ties depends largely on how long the U.S. continues its economic sanctions against China. President Bush has denied speculation that he plans to remove the sanctions, yet on Jan. 12 the U.S. said it approved of two "humanitarian" loans planned by the World Bank.

No New Projects

Marubeni Corp. Chairman Kazuo Haruna joined most other businessmen in welcoming the removal of martial law, but he added that Japanese investment in China is not likely to "rise to a high pitch."

Major trading houses already have been gradually resuming business deals, which they had been negotiating with China before the Tiananmen Square incident in June. Few are talking about launching any new projects, though.

Nissho Iwai Corp., in a joint effort with Atlantic Richfield Co. of the U.S., has agreed to set up a joint venture with China National Offshore Oil Corp. this year to produce liquefied natural gas in the South China Sea. Nichimen Corp. is preparing for soybean plantation in Heilongjiang Province.

Nonetheless, Chinese contracts with Japanese trading houses have been off 20 percent from year-earlier levels in recent months.

Steel industry executives expect the lifting of martial law to help promote crude steel export negotiations for February-July shipment that have been at a stalemate.

A consortium of Nippon Steel Corp., NKK Corp., Kawasaki Steel Corp., Sumitomo Metal Industries Ltd., Kobe Steel Ltd. and the Japan Iron & Steel Federation is hoping to push forward plans for two big projects to build steelworks in Hebei and Shandong provinces.

However, political uncertainty remains at the heart of apprehension over full-scale reinvestment to China.

According to a NIHON KEIZAI SHIMBUN survey taken late last year of 100 Japanese corporate executives, 37 percent said the impact of the Tiananmen Square incident will continue to affect China's modernization efforts for about three years; 23 percent said the effects would linger for about a year, and 38 percent said they were not sure. That left little room for optimism.

Still, about two-thirds of the respondents said they at least hoped to go ahead with existing projects, and most shared the view that China will be a prime market in the 21st century.

That, of course, largely depends upon whether the eventural successors of Deng Xiaoping, China's supreme leader, will be willing and able to carry out the economic reform he started a decade ago. That uncertainty is perhaps the paramount long-term concern of most foreign businessmen in dealing with China.

A Choked Economy

Economic sanctions imposed by the West have choked the already troubled Chinese economy. Since last June, the country has been facing a serious foreign currency shortage, squeezing its ability to pay for imports.

China has also tightened credit to fight inflation, which was seen as a result of the nation's economic liberalization program, thereby slowing down the economy even more.

The tight money supply has also delayed infrastructure projects that are needed to resolve chronic shortages of energy, raw materials and transportation capacity.

In addition, the recent dramatic changes in Eastern Europe and the growing presence of the Association of Southeast Asian Nations [ASEAN] have made China less of a priority in Japanese companies' global strategies, an executive of a major trading house said.

As a production base with low labor costs, China stil remains the center of focus among many of Japan's smaller firms, but even that advantage is beginning to be threatened by Indonesia, India and Pakistan.

Since the private sector has adopted such a cautious stance toward investment, it will probably be up to the Japanese government to pave the way for normalization of economic relations with Beijing.

High-Level Exchanges

Tokyo appears to be heading for a gradual removal of its economic and political sanctions, initially by resuming high-level official exchanges between the two countries.

Koichiro Matsuura, director general of the Foreign Ministry's economic cooperation bureau, will visit China on Jan. 18-21. At the same time, the ministry has invited China's State Planning Commission chief Zou Jiahua for a 10-day stay here, starting Jan. 16.

The senior officials will mainly discuss the resumption of negotiations on the third line of Japan's concessionary yen credits to China, which will total Y810 billion during fiscal 1990-1995.

The reopening of the yen credit dialogue has come simultaneously with the World Bank's disclosure Jan. 10 of its plan to extend two packages of loans to China, probably later this month or early next.

In March, former Liberal Democratic Party Secretary General Shintaro Abe will visit China as the government's special envoy.

Foreign Ministry officials stressed the official exchange does not spell any immediate reversal of its stance toward China. They also said the resumption of the talks will not necessarily lead to a full implementation of yen credits.

China is clearly hungry to obtain the new line of credit.

"Without a prospect of obtaining concessionary credits (from the West), China cannot compile its budgets or the next five-year economic plan," said Katsuhiko Hama, a senior analyst at the Institute of Developing Economies in Tokyo.

"If it secures the credits, China will be able to afford long-term investment in such key sectors as energy and traffic," he added. "If so, China's economic growth target may be within reach after a correction period of a year or two."

Major Japanese Private-Level Projects in China

Nissho Iwai, Atlantic Richfield (ARCO)
  ING production in South China Sea (Joint firm to be set up this year)

NICHIMEN
  Soybean plantation in Heilongjiang (Test planting in progress)

Nippon Steel, NKK Kawasaki Steel
  Full-line steel, ironworkers building (Research being conducted in Hebei, Shandong)

Takenaka, JAL, Mitsubishi Bank
  Hotel, building construction in Beijng (Construction suspended)

Hitachi
  Refrigerator production in Beijing (pending since June)
  VCR technology transfer in Nanjing and two other cities (MITI OK'd last December)

Matsushita Electric Industrial
  VCR joint production in Beijing (Pending since June)

Steel Industry Leaders To Meet PRC Counterparts

OW1301194390 Tokyo NIHON KEIZAI SHIMBUN in Japanese 11 Jan 90 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Text] Top leaders of the Japanese steel industry and Chinese steel authorities have agreed to hold regular meetings to exchange views on management, technology, and market analysis.

In Tokyo this coming spring, the Japan Iron and Steel Federation (chairman: Hiroshi Saito, president of Nippon Steel Corporation) will hold the first exchange meeting with the Ministry of the Metallurgical Industry, which is in charge of the steel industry in China. In exchanges to be held once a year alternately in Japan and in China, participants will also seek ways to promote exchanges of technicians for the bilateral flow of technical information.

The first exchange meeting was originally scheduled for last summer, but has been suspended following the Tiananmen Square incident.

China will send seven senior officials of the Ministry of the Metallurgical Industry to the meeting. The Japanese party will include Moriaski Ueda, vice chairman of the Japan Iron and Steel Federation, and Norisuke Koga, vice president of the Nippon Steel Corporation (in charge of the headquarters for cooperation with China). The representatives will hold discussions in the form of a symposium centering around technology related to steel refining. The Chinese will also visit five major steel refineries with blast furnaces, such as Nippon Steel Corporation and NKK Corporation, to exchange views with techncians on the job. The meeting is expected to take place in March or April.

Firms To Sell Steelmaking Equipment to China

OW1401194290 Tokyo NIHON KEIZAI SHIMBUN in Japanese 12 Jan 90 Morning Edition p 10—FOR OFFICIAL USE ONLY

[Text] Nippon Kokan KK [NKK] and Nippon Steel Corporation [Shin Nittetsu] will sell their existing steelmaking equipment to China. NKK has started negotiations between the Chinese Ministry of Metallurgical Industry and its Keihin Steel Plant (Kawasaki City) to sell equipment for making seamless steel pipes. This will be the first time steel pipe-making equipment has been exported to China, and formal contracts may be signed this summer. Shin Nittetsu has also decided to export hot strip mill equipment at its Sakai Steel Plant this spring. China strongly desires to produce steel pipes and sheets. Because the Japanese Government's economic sanctions against the PRC are expected to be lifted in the near future, the steelmakers are expected to be even more active in exporting their existing equipment to China to support the Chinese steel industry from the sideline.

NKK is considering selling a piece of pipe-making equipment called the "Erhard push bench mill," in which heated steel blocks are put into a round cylinder and a stick-shaped rolling mill makes holes in them from above. It is used to make thick steel pipes with diameters from 241.8 to 1,066.8 millimeters.

China wants to use this equipment to make seamless steel pipes for transporting petroleum. NKK set up this equipment in the mid-1970's, but the majority of demands have now moved to thin steel pipes, and thus, the equipment has not been in frequent use.

On the other hand, Shin Nittetsu is negotiating for the export of the hot strip mill equipment (with a monthly capacity of 250,000 tons) at its Sakai Steel Plant, which had stopped operations in April 1985. It has sent its officials to China for final talks. The amount involved in the transactions is expected to be several hundred million yen for NKK and 3 to 4 billion yen for Shin Nittetsu.

China has also signed contracts to buy thick steel sheetmaking equipment from Sumitomo Metal Industries' Wakayama Steel Plant and milling equipment from Shin Nittetsu's Kure Steel Plant.

Tokyo Firm Rushing Shanghai Power Project

OW1701062690 Tokyo ASAHI SHIMBUN in Japanese 15 Jan 90 Morning Edition p 6—FOR OFFICIAL USE ONLY

[Text] Tokyo Electric Company, which has been entrusted by the Shanghai municipal authorities to draw up a blueprint for renovation of the Shanghai city power transmision and distribution network, has resumed planning work and started consultations with Shanghai authorities on a schedule to conclude the blueprint drawing project by August. The project has been suspended since the Tiananmen Square incident.

This action comes as a result of moves made by the World Bank—a financier of the power project—to resume loans to China. Because the project is of an urgent nature and will affect the daily life of citizens, the company has determined that it should proceed with the project without delay. The electric power shortage in the city is said to be so serious that power stoppages are frequent. Once the blueprint is complete, business investments in China for projects of actual work, including power plant construction, are expected to start.

Shanghai, the No 1 commercial city in China, developed around foreign settlements (semi-colonies) of European and American countries since the mid-19th century, and despite the founding of a new Chinese nation in 1949, many buildings and much of the infrastructure constructed during the settlement days still remain. A typical example is this power transmission and distribution system, in which French-made and British-made facilities coexist with Chinese-made facilities. This inefficient and antiquated system, with power thefts exacerbating the situation, results in a 25 power loss to users, although the power costs much to generate. With the municipal population inceasing, due to a continued inflow of people from rural areas, and with housing construction also increasing, the power demand is increasing at the annual rate of 7 percent. The problem cannot be solved by such measures as restricting the use of coolers in summer time. "The power shortage is in such a serious state as to hamper the economic development," (according to Shanghai Vice Mayor Huang Ju.)

This project, entrusted with Tokyo Electric Company by Shanghai Electric Industry Bureau, is aimed at preparing a plan to install a power transmision and distribution system, which can serve the Huangpu District (2.2 square kilometers) in Shanghai until the year 2010. Since the state of population and the complexities of the electric wiring layout is so much like the Tokyo of pre-Olympic days, the company will formulate plans based on the experiences it gained from addressing Tokyo's problems in those days—for instance, regarding where tranfer power stations should be located in view of future developments, whether electric wiring should be laid above ground or underground, or how instruments should be standardized and controlled. The Chinese side, meanwhile, is hoping to learn related knowledge from working together with the company on the project, and to apply it when preparing a power system reform blueprint for the whole city of 5 million people and 150 square kilometers later on.

Tokyo Electric Company, working through a subsidiary, won the project when tenders were put out last spring. There was international competition, with companies from other nations, like the United States, France, and Taiwan, participating. Because of the Tiananmen Square incident, which occurred immediately after winning the bid, the work, which was originally scheduled for completion by June this year, has been delayed, but the Chinese have recently strongly demanded that the project be completed at an early date. "Ten Chinese technicians, who arrived in Japan last fall, have been working for 40 days without a day off. We are impressed by their zeal, but could also feel how serious the situation there is," (said Soshi Hoshino, executive director of Tokyo Electric Company.) The situation being such, the company has decided to expedite the completion of the blueprint.

Other Countries

Government Works To Strengthen OPEC Ties

OW1801083190 Tokyo THE JAPAN ECONOMIC JOURNAL in English 20 Jan 90 pp 1, 12—FOR OFFICIAL USE ONLY

[Article by Staff Writer Hisayuki Matsuda: "Japan Sweetens OPEC Ties To Cure Oil Jitters"]

[Text] The Japanese Government and the nation's oil industry, jittery over the prospect of another crunch in the world petroleum market, are taking out some political insurance.

They're stepping up efforts to strengthen already congenial relations with oil-producing countries, particularly those in the Middle East, from which Japan imports about 70 percent of its crude oil.

As a first step, Tokyo has invited Saudi Arabian Minister of Petroleum and Mineral Resources Hisham M. Nazir to visit Japan on Jan. 25. In coming months, Nazir will be followed by his counterparts from the United Arab Emirates and Iraq.

The discussions are expected to center on stabilizing petroleum supplies and the possibility of Saudi's entering Japan's refinery/distribution business.

The government also has beckoned oil ministers from Iran, Kuwait, Qatar, Oman and other such countries, according to the Ministry of International Trade and Industry.

This is hardly the first time Tokyo has reached out to oil-producing nations.

But the feeling now is that rising consumption, particularly in industrializing countries of Asia, and the dim prospects of oil production capacity in the North Sea, Mexico, the U.S. and the USSR, will strain the market in coming years. And that will increase the world's dependence on Middle Eastern supplies.

"We have felt something more is necessary to make our oil supplies secure," says Hiroshi Watanabe, deputy director of the international division of the Agency of natural REsources and Energy.

Oil Shock Memories

Some analysts warn that the current world oil market situation resembles conditions before the first oil shock of 1973-74.

"Sharply rising demand and the limited producing capacity of non-Organization of Petroleum Exporting Counties is raising dependence on OPEC members in the Middle East," says Tsutomu Toichi, chief economist at the Institute of Energy Economics.

Even though OPEC estimates its capacity at about 30 million barrels a day, Toichi says the actual sustainable level has come down to 25-26 million barrels because the low demand in the 1980's led to a lack of maintenance and little oil well development.

Thus, he says OPEC's operating rate has already risen above 80 percent and is likely to come close to 90 percent by 1995.

Ominously, the rate has risen above 80 percent only twice in the past—once during the first oil shock and, again, during the second in 1978-79.

"Certainly, this does not readily indicate a crisis, but we have entered dangerous waters," Toichi says.

After five years of decline, the capitalist world's oil demand rose at a pace of 2.6 percent a year from 1985-89. Asia's demand has risen an average of 5 percent a year, according to the institute.

In turn, OPEC output has risen from 16 million barrels a day in 1985 to 21.5 million in 1989, while that of non-OPEC has dropped slightly.

Toichi and others say the possible growth in demand in Eastern Europe could make the market even tighter.

Indeed, in its economic outlook for the 1990's, Mitsui Research Institute predicted a "third oil crisis," in 1993, when it says Japan's average oil import price is likely to jump 34.1 percent from a year earlier—to $29.50 a barrel.

Skeptics say that prediction is overly alarming, adding that a lot depends on whether the U.S. economy slows down. Also, Saudi Arabia and other producing countries discovered that sharp price hikes can backfire by stimulating a shift to alternative energy sources.

"Certainly, there will be wild swings in oil prices in the 1990's" says Toshio Inoue, director of the Cosmo Research Institute, an affiliate of Cosmo Oil. "But OPEC countries want only a gradual increase. Worldwide inflation and the resulting higher interest rates would hit them hard, too."

Whatever OPEC's stance, however, most observers are concerned about strong demand. "Sharp gains in demand in Asia are due mainly to increasingly affluent lifestyles, such as motorization and increased use of machinery," says Hiroshi Kamoi, general manager of the crude oil department at Sumitomo Corp., the major trading house.

"Affluent lifestyles can't be reversed just because of an economic downturn."

Doing the Deal

The prospect of a tighter market is pushing the industry to search for securer ways of purchasing oil. One conspicuous trend is an increase in direct-deal contracts, between oil companies and foreign governments, in the past year.

In December, Nippon Oil Co. struck a one-year deal with Qatar, effective in February, while Cosmo Oil became the first Japanese concern to conclude a direct deal with Bahrain, to start next January.

So nervous have Japan's oil companies become that they were hammering out direct deals right up to OPEC's general meeting in November—an unusual move before a session of the sometimes unpredictable cartel.

The balance is obtained through government-to-government deals or through the world's major oil companies.

Buying New Wells

Another way to gain a measure of security is to have direct access to oil wells.

Japanese companies have long dreamed of gaining control of the "upper stream" of the oil industry, but they have eschewed the purchase of wells in favor of buying exploration rights because the latter depend on government-supported loans, which require repayments only when oil is actually found. That's beginning to change now.

Nippon Oil's purchase of a 60,000-barrel-a-day oil rig in Sumatra in December is the first such example.

"The industry has come to question how much oil we have brought in to the country for the money we have invested," says Koichi Hasegawa, general manager of overseas research department at the Petroleum Association of Japan.

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* Foreign Aid Must Be Adaptable To Locale

902A0043A Tokyo SANKEI SHIMBUN in Japanese 26 Nov 89 p 5—FOR OFFICIAL USE ONLY

[From "Opinion Up" column by commentator Shirai Junichi]

[Text] **Now That Japan Has Become a Big Donor Nation....**

"Why are Japanese so singularly concerned about completion dates?" This is the kind of question I would hear from people of Southeast Asia as I made my way through ODA (Overseas Development Agency) supported construction sites. While Japanese would consider it only "natural" to see something completed on time, in a country where sense of time and various other conditions are different from those in Japan, the undue emphasis on strict adherence to schedule appears strange.

When one sees "frictional differences" of this sort, there arises a concern that maybe we Japanese, in providing aid or debating about it, are unconsciously imposing our own ways of thinking or our own sense of value on local people.

In 1988, Japan contributed about $9.1 billion to ODA, second only to the amount contributed by the United States. In 1989, about $10 billion was budgeted for ODA, making Japan the world's largest donor nation. The number of countries receiving their largest share of aid from Japan also reached 29. It is, however, only 10 years since Japan became a full-fledged donor nation. Japan's ODA is, therefore, described as still being in the "groping stage" (ODA White Paper), with wide-ranging policy debates certain to emerge in the future. One topic of debate will be consideration of "the feelings of the local people." Between this and the huge sums of aid dispensed each year, something appears out of balance. In one sense this means that problems encountered in providing foreign aid are forcing us to revolutionize our ways of thinking within the framework of Japan becoming more internationalized.

One's Own Yardstick May Prove Dangerous

A Thai official once pointed out to me that, "Whether playing golf or entertaining themselves on a night out, the Japanese always tend to stick together. This is very conspicuous and leads to criticism."

Whether they are blind to their surroundings or deliberately refuse to open their eyes, the Japanese overseas relentlessly go on maintaining the lifestyle they are accustomed to. Even if they mean no harm, their behavior is not something that endears them to local people, and it leads them eventually to measure all things only by their own yardstick. Each developing nation has its own uniqueness. It would be dangerous to ignore this and judge all things only by the Japanese yardstick.

A report by the General Affairs Office on the administrative supervision of ODA contains the following:

"The newly built food processing plant encountered numerous breakdowns due to workers' inability to operate the equipment and productivity suffered a 50 percent drop."

"The medical equipment is not being used due to lack of training and incomplete facilities."

Recipients of aid in these two cases cannot be totally blameless. Based on this, it is easy for us to speak of "sloppy aid" and natural for critics to decry the "failure to grasp the true nature of aid" or suggest that "technical assistance should have accompanied aid from the outset." But what concerns us here is that such criticisms tend to be directed at recipients of aid and negate the aid effort itself. A criticism that links developing countries' insufficient technological know-how and maintenance capabitility to their lack of interest could lead to an extremist's view that it would "be futile to send aid to disinterested people."

But these cases ought to be interpreted as one in which recipients "were interested, but were simply unable to take advantage of what was given in aid." Had they refused technical assistance because they thought they could do it on their own, we should take that into consideration and try not to force such assistance on them. In order to make these past failures work for us in the future, it is essential that we carry on a full-scale "dialogue" with each recipient nation.

As long as we hold unto the view that says "we supply the funds and will therefore accept nothing less than 100 percent success," it is unavoidable that people would call our way of looking at things "not helpful." Aid is something that is offered to assist developing countries help themselves; it does not mean simple material assistance. Aid, in other words, ought to be a cooperative effort towards mutual coexistence of all people who are trying to make a living on this earth.

To Whom Is Aid Given?

This year, Japan International Cooperation Agency (JICA), which distributes foreign aid for Japan, surveyed about 1,000 college students living in developing countries on their perception of aid. The survey shows that while a majority of the students said that "Japan's aid was helpful to development," 29 percent of them also said that "Japan's aid is aimed at expanding the overseas markets of its industries."

We cannot deny that at one point Japanese aid was used to expand its exports and secure raw materials. Having said that, and even allowing for some misunderstanding on the part of the recipients, it is a grave matter that there is still the perception that Japan gives "only to further its own interest." Should our industries and politicians still share the view that "aid is profitable," should Japan continue to measure things by its own yardstick, the result would clearly be along the line of "we gave but we are disliked." We need to be constantly on guard about "who it is that our aid is helping."

There are some Japanese who ask a very straightforward question, "Why must Japan become the number one donor nation?" To be sure, GNP and trade surplus figures indicate that Japan is an economic giant. But once we take into consideration the living conditions in Japan, the cost of living and the problems of aging, i.e., what it means to be truly prosperous, we are far from the best in the world.

In order to sustain and promote the largest aid program in the world, we need a strong base to support it. Today, both materially and spiritually, Japan's base is still far from solid. In this respect, the problems of aid become important "domestic problems."

Needless to say, as long as unimaginable poverty persists on this earth and also from the perspective of international mutual dependence, it is important that aid programs be continued. And in order to respond to the rising world expectations of Japan's international role, we must respond firmly to those problems arising from the demand of assistance from us.

* Article Warns Against Neo-Nationalism

WA0512005089 Tokyo BUNGEI SHUNJU in Japanese Dec 89 pp 94-99—FOR OFFICIAL USE ONLY

[Article by Masasmichi Inoki, Aoyama Gakuen University professor]

[Excerpts] [Passage omitted] Now that the cold war between the United States and the Soviet Union has ended, a strange and delusive argument has emerged in the United States to the effect that Japan's economy and technology have replaced the Soviet military threat.

To give tit for tat, some courageous neo-nationalists in Japan lacking a clear perception of Japan-U.S. relations have given vent to their frustrations, using words appealing to the Japanese masses.

Historically, the Foreign Ministry has often been criticized as weak-kneed. This often reminds me of before and after the Russo-Japanese War, when the Foreign Ministry was criticized as cowardly. Moreover, during the Manchurian Incident and the war against the United States and Great Britain, the Foreign Ministry was accused of being feeble. In my opinion, the Foreign Ministry was generally right prior to being taken over by the Army. Looking at the overall situation today, any mature person who is at a position to lead should not go into ecstasies over partial technological achievements and talk contemptuously about the United States. [passage omitted]

The fall of the communist empire is having a strong impact on Japan. Of course we rejoice over the Soviet military slowdown, which has reduced the threat from the north. But we should not neglect our defensive strength. Today, the political and military situation in areas surrounding Japan is very unstable. Our first priority is to increase our defense capabilities and to strengthen the Japan-U.S. security structure against unexpected attacks.

The most serious problem that has resulted from the fall of communism is that Japan-U.S. frictions have become magnified and overstated. The FSX [fighter support experimental] controversy is perhaps a clear example of this. [passage omitted]

The FSX question revealed surprisingly hostile suspicions toward Japan by U.S. congressmen. Although I know nothing about the technological aspects of the FSX issue, one of the three major U.S. networks approached me and tried persistently for an hour and a half to draw information from me on Japan's "ambitions." It seemed that the United States could not stand Japan's superiority in one field of high technology, and was extremely fearful that Japan would advance into the sphere of civil aviation.

Seeing irrational American actions, Japan's so-called neo-nationalists could hardly remain silent. As expected, they emerged during the latter part of this year, shouting loudly: "We have been forced by the United States to jointly develop the FSX. There would be no problem if we were to develop it on our own...."

However, it is an accepted fact that Japan can not develop the FSX engine alone. Besides, it is obvious that we will have problems with runways and test pilots, which are necessary in developing advanced fighter planes. These nationalists have lost their perspective because Japan has surpassed the United States in one field of technology in recent years.

The first year of "Heisei" has marked the dismantling of the communist empire, and also an unfortunate veritable pandemonium by short-sighted and overconfident neo-nationalists. Even in the Diet there has been a new group formed by frustrated neo-nationalsts. However, I believe that intelligent Japanese citizens will not be fooled by their demagogery in the next general election.

All serious Japan-U.S. frictions can be solved if both sides maintain a conciliatory spirit in the Japan-U.S. Structual Impediments Initiative Talks being held this year. It is essential that both sides be calm in the talks.

Daily on Asian Stability as Top Priority Policy

OW1401133290 Tokyo THE DAILY YOMIURI in English 13 Jan 90 p 3—FOR OFFICIAL USE ONLY

["Behind the Scenes" column by Minoru Hirano: "Asian Stability Top Goal"]

[Text] The government has decided to make Asian stability this year's top priority in foreign policy in an attempt to fulfill its role as an Asian leader.

If the historic changes in Eastern Europe since 1989 should spread to Asia and cause instability in China and the Korean peninsula, Asia's hitherto smooth economic growth will be disrupted and Japan's national security will be threatened. With the lifting of martial law in Beijing, Japan is resuming economic assistance and exchanges of ranking government officials with China as a first step in creating stability.

This policy was recommended by Japanese ambassadors to Asian countries at a meeting in Kuala Lumpur Jan. 5.

Participants at the meeting concluded that the changes in Eastern Europe would not immediately spread to China or North Korea. This is based on the belief that the socialist governments of China and North Korea came into being as a result of national liberation movements and differ from the socialist regimes of East European countries, established as a result of the Soviet victory over the Nazis. The ambassadors also noted that the socialist countries of Asia do not have democratic socialist traditions as in the case of East Europe.

Asian communism is linked with nationalism, but in Eastern Europe, the communists seized power as stooges of the Soviet Union, so the nationalist movements are directed against the Soviet Union and communist parties. If the communist party wants to remain in power as in East Germany, the party has to change its name.

From the mid-and long-term viewpoints, however, the possibility of changes in China and North Korea cannot be ruled out. According to one forecast, it will take China 10 years to bring in democratic reforms like those in Eastern Europe. Some analysts have predicted that in North Korea, a power struggle will erupt about 1992 when President Kim Il-song is expected to hand over power to his son Kim Chong-il. A nightmare for Japan is the possibility of a North Korean attack on the South to divert its people's attention from domestic problems. Such a war would produce a flood of refugees from South Korea to Japan. A total of 3,498 boat people arrived in Japan last year in 38 groups. Of them, 2,800 were known or suspected to be Chinese posing as Vietnamese refugees. Even this relatively small number of Chinese refugees caused great consternation in Japan. What if hundreds of thousands or millions of South Korean refugees arrive here?

However, North Korea cannot attack the South without Chinese consent.

Just before the fall of Saigon in April 1975 when the U.S. defeat in the Vietnam War became evident, Kim Il-song, accompanied by a team of military leaders, visited Beijing to seek Chinese support for an attack on South Korea. But Chinese leaders demanded peaceful unification of the Korean Peninsula and expressed disapproval of the North Korean plan. Since then Beijing has assured visiting Japanese prime ministers that there will be no North Korean attack on the South.

Japan should maintain stable relations with China to ensure that Beijing continues controlling North Korean adventurism and to guarantee that China does not start dumping its people as Vietnam did—allowing people to leave the country.

Foreign Minister Taro Nakayama, who attended the ambassadorial meeting, discussed on Jan. 4 the possible effects of the changes in Eastern Europe on Asia with Malaysian Foreign Minister Abu Hassan, and agreed not to isolate China.

The world's economic growth rate in 1988 was 4.1 percent, but the economic growth rate of Asia, excluding Japan, was 9 percent. In Asia, a pattern of economic growth has come into being where South Korea, Hong Kong, Taiwan and Singapore are closely chasing Japan. In turn, they are followed by ASEAN countries, which are followed by China.

Japan and other Asian countries believe that Asia will maintain stability and peace if China continues following its reform and open-door policies and follows its present growth pattern.

Economic Affairs

MITI Vice Minister Defends Changed Policy

OW1801064390 Tokyo THE JAPAN ECONOMIC JOURNAL in English 20 Jan 90 p 5—FOR OFFICIAL USE ONLY

[Interview with Yukiharu Kodama, vice minister of international trade and industry, by unidentified interviewer; date, place not given]

[Text] Foreign pressure on trade has led the powerful Ministry of International Trade and Industry [MITI] to adopt a forceful stance to encourage imports. MITI Vice Minister Yukiharu Kodama defends the new policy in an interview with THE JAPAN ECONOMIC JOURNAL.

Q: For quite a long time, MITI has urged major Japanese industries to boost their exports. Now, it is asking them to import as much as possible. Why has the ministry changed its policy so dramatically?

A: Japan's trade surplus in Fiscal 1989, ending March 1990, will be around $81 billion and will likely fall to $78 billion in Fiscal 1990 with a lot of effort to increase imports. But I believe it is still being viewed as strange that one nation can keep up such a huge trade surplus for so long.

Can we reduce our exports to other countries now? I don't think so, because many countries now depend on Japanese exports, such as semi-finished products. So, we believe the expansion of Japan's imports is the best way to balance our trade surplus.

Q: Some Japanese businessmen are criticizing MITI's action as a kind of "managed-trade" policy.

A: MITI objects to managed-trade policy. First of all, we consider this expansion of imports a temporary method, and we hope to abolish it as soon as possible. To maintain the free trade system, a lot of methods are required. MITI is planning to set up a tax subsidy to encourage imports of foreign products into Japan. This is one method that can support free trade.

Q: Recently, MITI asked the automobile industry to hold down investment for fear of its boosting exports in the future. Is this one of the methods you have mentioned?

A: Now that our automobile and other high-tech industries have grown so strong, we are expecting them to conduct themselves more deliberately. I mean, Japanese firms tend to engage in cut throat competition with their domestic rivals, but they should consider how their actions influence the world economy. For example, Japanese automakers have a lot of plants all over the world and they've got to adopt a worldwide strategy.

Q: At first glance, the U.S. seems to believe it can open the Japanese market or restrict Japan's exports if it simply manages to coax MITI.

A: I'm sure there are some people who have such an idea, but MITI is not almighty.

Q: What do you think of the so-called revisionists on Japan?

A: They want to give Japan some goals to attain. They think that if Japan doesn't attain these goals, the alternative is that the U.S. should impose sanctions on Japan. That's my understanding of revisionism anyway. For me, this kind of "managed-trade" concept is very strange. I really want those people to change their approach.

Q: What do you think about the high-tech trade war with the U.S.?

A: It's impossible to control the development of technology, and Japan will develop some technologies further. But I don't think it has exceeded the U.S. in high-tech industries. Japan can just enjoy her advantages in manufacturing technology through fierce competition in the consumer market.

Q: Do you have any idea what Japan's future will be? Will it be able to remain an export superpower in the 1990s?

A: I believe Japan will be in need of software much more in the future. Japan's exporting industries are boosting their overseas production, which means our manufacturing industries are expected to boost value-added production. If so, Japanese industries should strengthen their software development; in that way, they can maintain their strength in manufacturing.

* Effects of Japanese Money Invested Worldwide

902A0028A Tokyo NIHON KEIZAI SHIMBUN in Japanese 1-8 Nov 89—FOR OFFICIAL USE ONLY

[Serialized article by Nikkei New York correspondents Saito and Omago, editorial staff member Naoaki Okabe, financial reporter Sato, economic reporter Abe, Paris correspondent Okada, industrial reporter Kobayashi and securities reporter Kashiwa]

[1 Nov 89 p 1]

[Text] **The Pitiful Giant: Whether Advancing or Retreating, Japanese Investment in United States Draws Fire; Troubled Purchase of Rockefeller Center**

It has been 4 years since Japan became the world's largest creditor nation. Massive amounts of Japanese money cross national boundaries and flow into every corner of the globe. This outflow has shaken world financial markets and changed corporations, and has even begun to exert some influence on international politics. In this series we examine the nature of this outpouring of Japanese money—money that is at times a source of friction and at other times a godsend.

Selling Off Empire's Assets

"Japanese Firm Bought the Pride of New York"—such was the rather inflammatory headline with which THE NEW YORK TIMES of the 31st reported news of Mitsubishi Estate Co., Ltd.'s purchase of stock in a Rockefeller clique-affiliated real estate firm.

In this acquisition drama, Mitsubishi Estate executives from President Jotaro Takagi down were to the end bedeviled by one thing: To avoid at any cost repeating the Sony fiasco.

The Rockefellers were the first to propose the sale, of course. It is said they did so because the Rockefeller family needed cash to expand into new areas of business and for inheritance.

The Rockefeller Group company in which stock was purchased owns several high-rises in the middle of Manhattan, including the 72-story, art deco (a type of decorative art once popular in France) Rockefeller Center, built in the 1930's. In winter the plaza is turned into a skating rink and decorated with a large Christmas tree.

"It [Rockefeller Center] is a symbol not just of New York, but of America," says Senior Vice President (Petit) of the Rockefeller Group. It is one of the major assets of one family. Its sale can also be said to be the selling off of the assets of the Rockefeller empire founded on oil in the middle of the 19th century.

Mitsubishi executives are worried that, should they move clumsily, a boycott directed at Mitsubishi may arise.

So we have the Rockefellers, who want to sell, and Mitsubishi Estate, who wants to buy. Between the two a number of measures to avoid friction were concluded secretly. One of these was a secret agreement allowing Mitsubishi to acquire 80 percent of Rockefeller Group's stock. Both sides announced that Mitsubishi had agreed to pay $846 million for 51 percent of Rockefeller Group's stock.

It is said that the actual agreement did not end there, however; this theory holds that an option contract was signed allowing a third-party investor approved by Mitsubishi or the stockholders (also Mitsubishi) to buy an additional 29 percent of the company's stock within 3 to 5 years. That third party might be The Meiji Mutual Life Insurance Co., a member of the Mitsubishi group of companies, or it might be The Mitsubishi Trust & Banking Corporation. Of course, Mitsubishi Estate is the most likely third party.

In order to cushion the shock of the acquisition Mitsubishi was allowed to acquire 51 percent of the company's stock in the first of two stages in the meantime, but there is no guarantee that this desperate measure can avoid creating friction.

New York Stock Exchange Shaken

Massive amounts to Japanese money continue to shake the New York Stock Exchange as well.

On Saturday, 14 October, the day after the stock market crash, Dai-Ichi Kangyo Bank Chicago Branch Vice President Makoto Shoda received a telephone call at his home in suburban Chicago. The caller was CitiBank's (Collin Cavanaugh). Cavanaugh was in charge of arranging financing for the acquisition of UAL [United Air Lines]—a large American air line company holding company—that triggered the crash.

The passivity of the Japanese banks along with their American counterparts had decisively influenced an earlier attempt; a second failure would not be forgiven. Cavanaugh explained that financing terms for the proposed takeover had been improved, with each participating bank putting up a minimum of $500 million. Cavanaugh desperately wanted Dai-Ichi's participation in the deal. On this day alone Shoda would receive five phone calls urging Dai-Ichi's participation.

At this point, CitiBank had narrowed the list of banks to be included in the financing to 20, of which 6 were American, 6 European and 8 Japanese. This proportion alone gives one an idea of how much is expected of Japanese money. Phone calls went out not only to Dai-Ichi but to other Japanese bankers in the United States, part of CitiBank's managers' strategy of giving up a day off and soliciting participation by phone. But most of the Japanese banks failed to move on the deal and CitiBank's efforts ended in failure.

One week after the stock market crash, BUSINESS WEEK magazine ran a news analysis article featuring Federal Reserve Bank of New York President Corrigan, titled "Japanese Banks Exercise Greater Caution," to the effect that Americans have worried about the concentration of power in the hands of the banks of a certain foreign country.

At a meeting of the House Banking Committee on 25 October, Committee Chairman Henry Gonzalez expressed alarm over the continuing acquisition of American financial institutions by Japanese banks and urged the Federal Reserve Board to exercise caution in permitting such acquisitions. Many observers think this alarm has been triggered by the rapidly expanded strength of the Japanese banks, as symbolized by Dai-Ichi's recent acquisition of stock in a subsidiary of Manufacturers Hanover.

Symbol of American Prosperity

Japan's net overseas credit account has reached some $300 billion; Japan is the world's largest creditor nation. America's national debt now exceeds $500 billion. "Since the 15th century, the world's money center has changed repeatedly," says MIT Professor Kinderberger, who is something of a historian. "It moved from Venice to Antwerp and Amsterdam, then to London and New York. Maybe Tokyo will be next."

Government officials such as Secretary of State James Baker point out that the United States needs Japanese investments. However, the furious acceleration of such investment in the United States has given rise to a steadily increasing sense of fear as well. If Japan pulls its capital out of the United States the nation will be shunned; if it continues to expand its investments the friction will increase.

The famous Mitsubishi clique "buys out the (equally) famous Rockefeller Empire." Shortly after the acquisition was reported, I asked American tourists in front of Manhattan's Rockefeller Center what they thought of the deal. Four out of five said they had no trouble with it. But one tourist criticized the acquisition: "The Rockefeller clique of companies is a symbol of American prosperity. That Japan should buy it is inexplicable."

Not everyone is hysterically angry about the purchase and only a few are critical of it. But that critical minority is all but certain to grow in numbers even as Japanese money makes its presence increasingly felt and as more is expected of it.

[2 Nov 89 p 1]

[Text] **Tottering America: A Relationship in Which One Cannot Say 'No'; Between Threat and Welcome**

Republican Congresswoman Bentley leads the opposition to Sony's acquisition of Columbia Pictures. She has introduced legislation to protect American cultural assets from foreign firms but, not satisfied with even that, she is planning a boycott of Coca Cola for selling "the soul of America" to Sony. "If you want to drink, drink Pepsi," she says.

"Threatening Letter" From Japan

The aggressive congresswoman has accused Japan of threatening the United States. The "threat" here is that Japan would stop purchasing United States bonds.

"Japan immediately threatens to stop buying U. S. bonds to finance the United States budget deficit as soon as the United States makes a move," she says. "When that happens, the United States is in trouble. But the United States budget deficit increased because the United States helps and protects Japan."

Congressmen opposed to "the buying of America" by Japan are deeply worried about the possibility that Japanese capital may be pulled out of the United States.

After "Friday the 13th" (the day the New York stock market crashed) there was a subtle change in attitude toward Japanese investment in the United States.

In the office of Democratic Senator James Exon, the senator and his staff pored over a Japanese scholar's views printed in an American newspaper, to the effect that Japan needed a Japanese version of "Super 301," the Omnibus trade bill. "The article went on to say that 'Japan should automatically reduce its purchases of United States bonds if the United States implemented punitive measures against Japan," said the senator, who, along with Senator Florio, is the sponsor of the Exon-Florio protective trade amendment prohibiting the acquisition of American firms by foreign firms that would affect national security. "But I wonder if it is true that Japan can make such a choice," the senator asked in earnest.

Japan regularly buys 30-40 percent of any new issue of United States government bonds. As a means of retribution, it is impossible to think of removing that capital. Nevertheless, the uncertainty that the Japanese may do just that probably stems from the idea that Japanese money has a hold on the heart of the American economy.

Those in favor of regulating investment worry that Japan might take its capital out of the United States; those who welcome such investment warn of serious friction.

A History of Xenophobia

"Japanese investment is most welcome," says MIT Professor (Donebush). "It pays taxes, rejuvenates communities and creates jobs. Employees start work early in the morning, and they don't spit gum on the floor." However, this same professor also says that "those who haven't studied economics very much might start saying, 'Japan go home.'" In France in the 1960's, under De Gaulle, the expansion of American firms into France was considered "the American challenge"; there was a growing tendency to say "Yankee go home." That history cannot but repeat itself.

Nor have the fears of the Wall Street investment bankers—the biggest users of Japanese money—disappeared. Peterson, former secretary of commerce and now chairman of the Blackstone Group, an investment bank that has helped mediate the acquisition of American companies by Japanese companies, including Sony's acquisition of Columbia Pictures, points out that a kind of "national jealousy" may be kindled as Japanese investment continues to increase.

Why is Japanese investment alone such an irritant? At the end of 1988 Japanese direct investment in the United States stood at $53 billion, only half that of the English and about the same as that of the Dutch. Although some of the difference in the way these investments are seen is due to the English being "quiet investors" and the Japanese being "flashy investors," there is more to it than that.

According to United States Diplomatic Council Economist (Islam), "Japan is an economic power on the rise, while England is nothing more than an economic has-been. Even if the English increase their investment in the United States, they pose no threat to the United States." It is the case of the pursuer and the pursued. The United States has been shaken by the rise of Japan, the new money power. The idea that the United States is in danger of losing its crown as money king is deeply rooted in United States-Japan frictions.

In the meantime, however, American reliance on Japanese money continues. In order to cover large current account deficits, securities and direct investments from Japan are indispensable. Capital from Japan covers one-third or more of America's current account deficit. If Japan were to remove that capital, the dollar would probably plummet, interest rates in the United States would probably rise and the New York stock exchange would probably crash—just as congressmen fear. It has become impossible for the United States to knock Japanese money. At the same time, if the dollar fell because the Japanese pulled their capital out of the United States, Japan's dollar assets—the fruit of investments made up to now—would be destroyed; Japan would wring its own neck.

Japan-United States Investment: One-Way Street

Japan's current account surplus is swelling and it is a creditor superpower. Domestic interest rates have fallen and it is structured so that money flows overseas. The United States, with its current account deficit and its position as the world's leading debtor nation, taps Japanese money to cover its deficits. The American economic structure sucks up Japanese money, which the Japanese economic structure pushes out. It is a relationship in which neither party can say "no" to the other.

However, as United States dependence on this Japanese money increases, so, too, do the areas of friction between the two.

Moreover, investment between Japan and the United States is a one-way street. Take Donald Trump, a man called the money king of America. He has made a name for himself by acquiring everything from real estate to airlines. It is said that even if he can buy Manhattan he would find Tokyo too expensive. There is a big difference here between Japanese firms gobbling up Manhattan.

We should take note of the complex situation in the United States, in which Japanese investment is seen in a mixed manner—as a threat and, alternatively, as a blessing—and take steps to remedy the lopsided investment picture; otherwise, investment frictions will only intensify.

[3 Nov 89 p 1]

[Text] **Alchemy of Undeclared Assets: Making Big Purchases Overseas; Land and Stock Prices Go Up and Up**

"We made a big purchase," says Akira Tsumura, suppressing a laugh. Tsumura is president of Tsumura Co., Ltd., an herbal medicine and bathing lotion manufacturer, which in August of this year acquired the perfume division of the American cosmetics company Minnetonka Inc. Thinking at first that it would be enough to get just a base from which to sell its own products in the United States, Tsumura was in the end able to acquire an entire division of an American firm, including a nationwide marketing network and several production plants.

At Y9.3 billion, the cost of the acquisition equals Tsumura's profits for 2 years. After agonizing over the acquisition for a whole day, the company borrowed part of the money from the banks. Tsumura is not at all concerned about the debt.

Two-Thirds Value in Undeclared Assets

The Tsumura Building, an office building, stands at the Yaesu exit of Tokyo Station, a prime locale full of department stores and shops. With monthly rents of Y80,000 per 3.3 square meters, it is the most expensive office building in Japan, surpassing even the Kasumigaseki Building. The undeclared assets of this building include the land, alone worth Y17 billion. Tsumura acquired its main office building in the Nibancho district of Tokyo in 1985, just before the price of land skyrocketed; the value of that building has mushroomed to nearly Y40 billion today, 3.5 times what it was worth in 1985.

Tsumura holds 8.5 million shares of stock as investments, with a book value of Y5.7 billion; that stock is currently worth Y20 billion. "I wonder how large a loan we could get if we offered all of it as security," muses Managing Director Osami Furuya. [as published]

That same amount of capital, if invested at home in Japan, might allow Tsumura to build one factory in a nearby prefecture; Y9.3 billion would go a much longer way abroad.

The current total value of Japanese stocks surpassed that of the United States at the end of 1987, reaching Y500 trillion at the end of 1988—1.7 times the value of American stocks. At the end of 1987 the total value of land in Japan was Y6,138 trillion ($13.4 trillion), enough to buy all the land in America four times over.

According to the Japan Securities Economics Research Institute, at the end of March 1988 firms other than financial institutions listed in the first section of the Tokyo Stock Exchange held assets—both stock and land together—worth Y764 trillion. Two-thirds of this total, or Y520 trillion, consisted of undeclared profits. It is said that the value of the undeclared assets of the financial institutions alone—banks, insurance companies, etc.—exceeds Y1,000 trillion.

Cross-ownership of stock and current corporate accounting practices which do not require that paper profits be counted as profit have swelled the value of companies' undeclared assets. By issuing bonds backed by those assets both in Japan and abroad, leading firms can borrow money at rates of interest as low as 1 percent or so; with these loans they invest overseas. Foreign land and stocks are relatively cheaper than in Japan. Then there is the appreciation in value of the yen. The value of this capital increases even further as it crosses the border. This is "the alchemy of undeclared assets."

"Go After Japanese"

Among individuals who have seen their assets increased by rises in the value of land and stock, too, more are seeking high rates of return on their investments and are beginning to look to foreign real estate and stocks in an attempt to get them.

"If they're Japanese with money, go after them," urged one securities firm aggressively seeking to market "junk bonds" (high-risk, high-yield bonds) to Japanese investors from the lobby of a Tokyo hotel on the day before October's "Friday the 13th," the day the New York stock exchange crashed.

A large number of individual investors could be seen mixing with representatives of banks, brokerage firms and insurance companies. Doctors and realtors have formed "investors' groups" and hope to invest billions of yen in American stocks.

Japanese other than parts of the monied classes that American securities firms are so interested in continue to save at high rates. At the end of March 1989, personal savings totaled Y641 trillion. That works out to Y19.57 million per household, making the Japanese the world's biggest savers. Anyone trying to own a home has to increase savings just to keep up with the increase in the cost of land.

The financial institutions that manage this money have turned to investing in stocks and borrowing against the land they own, inviting further rises in the market. Money breeds money. The chain reaction engendered by the rising value of stock and land holding and the high savings rate has finally caught up even individual investors.

High Price of Dependence on Financial Policy

"The government itself participates in his alchemy and has created the causes for the poor behavior of Japanese money abroad," says (Takashi) Kato, director of Yamaichi Securities Co., Ltd.'s Economics Research Center. Rather ironically, Japan's extensive financial deregulation as per a coordination of policy between the finance ministers of the Group of 7 nations (G-7) has led to a surplus of money, spurred land and stock prices to new heights and, some say, laid the foundations of an "undeclared economy."

An overhaul of the system, such as a land policy designed to expand domestic consumption, is overdue. In the meantime the price of dependence on exchange rate and financial policies has mushroomed. "The dearth of investment opportunities at home has invited an outpouring of investment capital overseas," says Nomura General Research Center Economist Richard (Koo). How and where this excess money can best be used still remains to be seen.

[4 Nov 89 p 1]

[Text] **Troubled Institutional Investors: Limitations of Low Profit Margins Domestically; Youngsters in Charge of Y270 Trillion**

"I never thought I'd be doing this kind of work right after I joined the company," says Hiroshi Tachida, 25, a fund manager handling bond investments—mainly 10-year government bonds—who is beginning his 2d year with The Meiji Mutual Life Insurance Co. "I handle about Y5 billion at a time. It's not like it's in cash right before my eyes, so I don't have a feel for how much it really is."

Excluding the management, the average age of the seven bond investment managers is 27-28; anyone managing such funds even 4 years is considered a wizened veteran.

Tachida had a vague image of fund managers as "cool." After joining Meiji, he went on scuba diving trips to Hawaii and Saipan during vacations.

"I feel the burden, the importance the insured attach to their money," he says, "but if you don't set that feeling aside, you can't buy and sell. Still, there are times when I think that what I'm doing is risky. Once you get used to it, it's easy to begin feeling nothing over even big losses."

The assets of Japan's major institutional investors combined exceed Y270 trillion, with life insurance companies with Y105 billion, trust banks (excluding loan trusts) with Y66 trillion, investment trusts with Y57 trillion, casualty insurance with Y22 trillion and investment advisers with Y20 trillion. That total is more than four times the size of the country's national budget and about half again as large as the United States budget.

What should be of particular note is the way in which life insurance assets have quickly mushroomed. After total life insurance company assets surpassed the Y50-trillion mark in November 1985, in just 3 years they swelled to double that figure. Each year, enough capital flowed into the 25 companies that comprise this industry to set up a mid-sized city (i.e., major commercial) bank.

Deluged with money, in 3 years Meiji more than doubled the number of its stock and bond managers, from 76 in 1985 to 161 at present. "But the money came in so fast we had no choice but to hire mainly young people," says Meiji Finance Division Manager Naohiko Mochizuki.

In the first half of this fiscal year (April to September), Meiji's nationwide network of approximately 38,000 door-to-door salespeople—"life and casualty ladies"—collected premiums of Y1.2 trillion. Minus claims paid out, salaries and expenses, the amount by which assets increased thereby was Y830 billion. Excluding holidays, that works out to a daily asset increase of Y5.3 billion. Although the Y5 billion that 2d-year man Tachida manages may be a lot of money for an individual, as far as Meiji is concerned it is no more than the assets it amasses in just 1 day.

Thus policyholders' insurance premiums become a part of the gigantic Japanese money machine, which circumnavigates markets at home and abroad. For example, take what happens to Y1 million in a pension fund. In broad outline, Y360,000 of that Y1 million goes toward loans made mainly to corporations and Y60,000 is used to invest in domestic real estate; Y130,000 is put toward savings. The remaining Y450,000 is put into marketable securities; of that amount, Y200,000 is invested in domestic stocks, Y100,000 in domestic bonds, and the remaining Y150,000 goes abroad.

Unavoidable Losses From Difference in Exchange Rates

Investments in foreign currency government bonds, which accounts for 80 percent of overseas investment and led the life insurance industry to Y1-trillion-plus losses on differences in exchange rates (this was when the yen was appreciating rapidly in value), have been held up as a critical example of the inability of the industry to manage its assets effectively. Despite that experience, there has been no sign at all that any of the insurance companies is pulling out of foreign-currency denominated bonds. The reason is that they cannot find places in Japan in which to put their money.

Nippon Life Insurance Co.'s (Haruaki) Yamaguchi, who is chairman of the Financial Planning Committee of the Association of Life Insurance Companies, says he understands the problem. In a self-deprecatory manner, this chief of Nippon's Financial Planning Office evaluates the matter this way: "Even though we knew we would encounter losses due to differences in the exchange rate, we really had no choice but to invest overseas because there aren't any attractive investment opportunities left in Japan and because we were looking for a high rate of return. Moreover, it was as easy as taking nuts out of a jar. Now we can't get our hands out of the jar." Their investments are too large for the insurance companies to pull out of foreign bonds even if they tried to do so; if they try to liquidate their holdings their losses would be so large they would end up hanging by the neck.

For the insurance companies, which compete for yields on their assets through interest and dividends, returns on stocks are only about 1 percent. Even so, bonds bear low nominal rates of interest when interest rates in general are low. Land prices are so high that there are few good properties left for real estate investments; "The domestic market is hemmed in," according to Asahi Mutual Life Insurance Co. Managing Director Tatsuo Nakada.

New Investment Ideas Needed

An English newspaper, THE DAILY TELEGRAPH, reported in May of this year (when Japanese insurance companies' assets broke the Y100-trillion mark) that, as in Manhattan, real estate values in London's metropolitan area appeared poised to rise with the coming of the Japanese insurance companies. At that time, such major insurance companies as Nippon and Sumitomo Mutual Life Insurance Co. were reevaluating their dependence on dollar-denominated bonds as their primary overseas investment tool and shifting their funds out of bonds and into stocks and real estate—and out of the United States and into Europe.

In the past year, the insurance companies have invested more than Y100 billion in acquired office buildings in London's metropolitan financial district. This figure is still no more than 0.5 percent of the increase in their assets over the same period; nevertheless, the Ministry of Finance strongly suggested that these companies go about their acquisitions in virtual secrecy and maintain as low a profile as possible even after such purchases had been completed.

Insurance fund managers sometimes talk with each other over drinks about how best to make use of their swollen assets, and sometimes their ideas are extravagant: How about filling in Tokyo Bay and turning it into a housing development? No, we should use the money to acquire mining and oil rights to safeguard Japan's supply of natural resources. But the next day they return to the reality of managing the funds with which they have been entrusted.

Insurance fund managers respond to outside criticism by saying that their management strategies are geared to meet the needs of policyholders with whom they must deal for the next 20 or 30 years, and that therefore they are fundamentally different from the short-term investor. If so, then now more than ever both the insurance companies and the Ministry of Finance need new, forward-looking investment ideas, before such ideas have to be cobbled together in a crisis.

[5 Nov 89 p 1]

[Text] **Merits and Demerits of a Savior: United States Industrial Retrenchment Stalled; Extraordinary Patience Distorts Market Principle**

The American steel industry, which started five mergers this year with Japanese steelmakers, has literally begun a fight for survival via Japan-United States cooperation. But in October of this year a new player appeared on the scene, ready to run the obstacle of the Japan-United States alliance: The large European steelmaker Sacilor, a French firm.

The firm recently rejected feelers about capital participation in the United States National Steel; Japan's NKK ownd 50 percent of National's stock. It instead embarked on the acquisition of American steel distributors and agreed to joint production of machines for making rolled steel with Bethlehem Steel, a major American company which does not have a single Japanese partner. Although the scale of both these operations is small, they do not duplicate the efforts of the Japanese-American ventures and they are areas for which demand can be expected to grow in the future.

Europe's Question

In the middle of these negotiations, Sacilor President F. (Maille) came to Chicago and told a group of American steel executives that they should think about linking up with European corporations. His statement was not just the jealousy of the European latecomer; rather, it questioned the merits and demerits of the type of merger that depends on the Japanese.

The Japan-United States mergers all involve large companies, such as Nippon Steel Corporation and Inland Steel, or Kawasaki Steel Corporation and Amco, and all are designed to increase production of sheet steel for use in automobiles, for which demand can be expected to increase. In 1992, when these mergers will get under way, the five ventures involved will alone have an annual production capacity of 4 million tons, 60 percent greater than at present. When other investments for modernizations are included, total investment will reach $3 billion.

American steelmakers, all of whom posted major losses in the 3d quarter of this year, do not have the resources to make such investments individually. If they increase their proportion of liabilities relative to assets by making such investments at a time of falling profits, their stock prices will fall and they will earn the wrath of their shareholders; the management may even be removed. Japanese participation is required for half the financing, not to mention the technology.

Japan is supported by what the American securities firm Salomon Brothers calls "an extraordinarily patient capital structure," meaning that in Japan investors hold onto stock for long periods of time in the face of much lower dividends than are paid in the United States and there is cross-ownership of stock. Thanks to that structure, capital procurement costs are, for the best companies, one-tenth of what they would be in the United States, according to Nomura Securities U.S.A. Like the acquisition of American companies, an infusion of long-term, low-cost capital is intended to revitalize the American steel industry.

Follow-the-Leader Syndrome

Still, a by-product of this dependence on the Japanese that can be foreseen is damaging competition resulting from a follow-the-leader syndrome: When one company decides on an investment the others will make every effort to make the same investment. The effect of this competition will be to allow firms that might otherwise have been eliminated in America's structural adjustment to survive and may lead to overcapacity; demand for sheet metal for use in autos will at most increase only 30-40 percent by 1992, steel industry analysts say, but production capacity will have increased by 60 percent.

"I'm concerned about how much of that capacity will be available in the initial, start-up stages," says Kawasaki Steel U.S.A. President Akio Shimizu, expressing a fear that has—not unnaturally—begun to set in among the Japanese partners to these arrangements as well. Should such capital investments turn out to be excessive by the 1990's, major American steelmakers such as USX [U.S. Steel], which even now is under pressure from its large shareholders to sell off its low-profit steel division, may lose interest in managing the mergers, shaking such ventures to their foundations.

Long-term, low-cost capital is a double-edged sword: Although it helps the United States, it may also hang it. The Japan-United States steel mergers have begun to throw that ambiguity into sharp relief.

A recent example that illustrates the long-term perspective of Japanese investment is Dai-Ichi Kangyo's acquisition of 60 percent of a finance company that is a subsidiary of Manufacturers Hanover, a major American bank. At less than twice the value of the company's net assets, the cost of the acquisition cannot be said to have been very high, but using just the firm's direct profits as a basis for calculation it will take Dai-Ichi about 18 years to recover its investment.

Ford, the American automaker, also recently acquired an American finance company. Calculated in the same way, it will take Ford 11 years to recoup its investment. Ford is known among American companies for taking a long-term view of its investments, as evidenced by its acquisition of Jaguar at a price General Motors told Ford was "too steep." Even so, Ford's perspective does not compare with that of Japanese firms. Dai-Ichi's acquisition also has the marked appearance of helping out Manufacturers Hanover, a company with a troubled internal capital situation. With the infusion of capital from Dai-Ichi from what is in effect a sell-off of its finance company subsidiary, Manufacturers Hanover has increased its loan-loss reserves against third world debts to $950 million. Manufacturers Hanover, which had the smallest reserves against medium-term third world debts of any large American bank, increased those reserves to 36 percent of loans.

But Japanese banks were unsettled by what happened next. In the aftermath of the Manufacturers Hanover move, other large American banks increased their own loan-loss reserves to about 45 percent of loans. Partly because of differences in the tax system, the major Japanese banks have third world loan-loss reserves of only about 15 percent, according to the management of one large city bank.

Japan Itself Suffers

The American banks' decision is largely based on the American-sponsored new debt strategy (the so-called Brady Plan) for reducing third world debt. There can be no doubt, however, that the major American banks have put even more distance between themselves and the Japanese banks, which were supposed to be the saviors. To make matters worse, says Bank of Tokyo Chairman Yusuke Kashiwagi gloomily, "The American banks' loan-loss reserve increase damaged talks over new financing for the third world, and these talks hold the key to the success of the new debt strategy." The position of the Japanese banks has become even more uncomfortable.

Japanese money is certainly a useful source of capital that does not balk at the prospect of poor short-term profits. However, one director of a Japanese bank in the United States warns that Japan, too, will suffer if that money is used without a thought for its long-term effects.

[6 Nov 89 p 1]

[Text] **To the East As Well: Worldwide Attention on Aid To Reform; First, "Developing" Hungary**

On 4 October, just before the Hungarian Socialist Workers Party (Communist Party) renounced one-party rule and announced it was moving toward socialism, a joint venture between Japan and Hungary called "Salgotarjan Glass Wool" began operation in the northeast section of the capital, Budapest. The venture is a private firm established jointly with the Hungarian glass public corporation, with Nitto Boseki Co., Ltd. and Toyo Menka Kaisha, Ltd. (Tomen) putting up 26 percent of the capital. With Japan providing the technology, the plant produces 4,500 tons of energy efficient insulating material, part of which is also exported to the West.

Introduction of Performance Assessments

"At this factory, we began an experiment that has probably never been attempted before in the Soviet Union and Eastern Europe," says Vice President Horio. He is referring to the introduction of performance assessments for each and every worker. From production process to office work, the manager rates his subordinates' performance on a bulletin board, and that rating affects workers' pay. The Hungarians were initially strongly against the Japanese plan to introduce such assessments, but the latter convinced them that unless performance levels of all employees were improved the venture would not be a success.

The Export-Import Bank of Japan supplied most of the capital investment in the form of suppliers' credits. That makes this venture a typical Japanese money-powered merger; but, as Salgotarjan President Varga says, "We wanted not only capital and technology; we also wanted the superb Japanese managerial know-how that helped Japan realize high economic growth."

Hungary is a small country, poor in natural resources. "Japan, the country that succeeded with an aggressive economic strategy, is the best model" for Hungary if it is to become the trading nation it wants to be, says Central European International Bank President Zaborski (sp?).

Economic reform involves two main facets: Joint ventures with foreign firms and the privatization of state companies. Says Hungarian National Bank Finance

Bureau Director (Lotz): "We learned that we cannot get on with structural reform simply by borrowing money from abroad as we have done up to now. There can be no economic reform without the direct foreign investment attendant upon the importation of technology and management skills."

Hungary's foreign debt stands at $17.8 billion. An annual debt service of $2.5 billion oppresses the economy. Still, investor confidence in Hungary remains high because the country has never once asked to reschedule its debt payments. Japan is Hungary's biggest supplier of capital, through yen-based loans and "samurai bonds" (yen-denominated bonds) that account for over 30 percent of Hungary's foreign debt.

This year, however, with the laying of a foundation for the introduction of foreign capital through the passage of corporate, investment protection and even privatization laws that permit the establishment of private companies and 100 percent foreign-capitalized firms, the focus on what it was hoped Japan would do shifted away from supplying the government with capital to actively participating in the restructuring of the economy.

Securities Firms and Insurance Companies Also Move In

Starting this summer, Japanese businessmen in Budapest started to get extremely busy. After legislation was passed in July privatizing the public corporations, they were deluged with incessant feelers from both the government and the public corporations sounding them out about the possibility of buying stock in the new firms. "No doubt every Japanese company in Budapest has five or six deals going now," says one trading company employee.

C. Itoh & Co., Ltd., recently took the initiative and obtained some stock in the privatized agricultural products trading corporation "Agrimpex." That was the first time a Japanese company had participated in the privatization of a firm. Although that participation was limited in scale, the local office of C. Itoh thought it important to strengthen ties with people.

According to trading company analysts, all the trading companies are studying a request from the Hungarian public chemical corporation that together they buy a certain amount of stock in the soon-to-be-privatized company.

Japanese personnel stationed in Hungary all agree that, although they would like a little more time to see where reform is going, the country is nonetheless a highly attractive place from which to begin developing trade with the Soviet Union and Eastern Europe. Officials at Tomen think that if current negotiations now under way between Hungary and the Soviet Union over foreign currency account settlements are a success, then Japanese firms will be in a position to participate in trade within CEMA [Council for Mutual Economic Assistance], the Communist bloc.

Securities firms and insurance companies are also beginning to move in to Hungary. Attention has focused on Austria as an intermediary in East-West trade, and in May Nomura opened an office in Vienna. The move was made with an eye on not only the Vienna stock market but also on helping neighboring Hungary's stock market grow. Recently 20-30 percent of the "Austria Fund" mutual fund that Daiwa Securities has begun marketing in conjunction with the American securities firm Salomon Brothers has been devoted to Hungarian stocks.

Toward the end of October London employees of Japan's four biggest insurance companies went to Eastern Europe to assess investment opportunities there. After conferring with government officials and financiers, they got the feeling that Hungarian stocks would be a good investment.

East-West Market as Base

Toward the end of this month (Mosovsky), the president of the Foreign Economic Bank, the Soviet Union's only foreign exchange bank, will visit Japan. Rumors circulate over what he is coming to discuss; some say he is certain to talk about project financing, while others think he wants to talk about building hotels in Moscow, where there is a shortage of hotel space. At a meeting of the Japan-Soviet Economic Committee toward the end of August this year, the Soviets even proposed the establishment of a joint bank, the "Baikal Bank," for the purpose of developing Siberia.

A recent issue of a small Moscow magazine aimed at foreigners noted that, of all the advanced countries, only Japan does not have a representative office in Moscow. The article went on to theorize that this was so because of the Northern Territories problem, and that Japan had adopted a policy of linking political and economic issues.

Even now, Japan's approach to the Soviet Union and Poland has been cautious compared with its approach to Hungary. As East-West relations begin to move firmly away from an age of military competition and toward an era of economic competition, however, expectations that Japan will contribute to the success of reform in the East have only risen.

According to Japanese diplomatic sources, since the July conference of seven industrialized nations Japan has started to become dangerously isolated within the conferences on aid to Eastern Europe that have erupted in the West. It is likely that the Soviet Union and the countries of Eastern Europe are not the only ones waiting to see what the Japanese money that has supplanted Western markets will do with the base formed by a thaw in East-West relations.

[7 Nov 89 p 1]

[Text] **The Key To Asia's Growth: Fear Invites Further Land, Stock Price Hikes; 'How To Make Use of 3 Percent of GDP [gross domestic products]'**

This month, another four Japanese financial institutions will take up residence in Hong Kong's most luxurious office building, Exchange Square: the Mid-sized Ace, a securities firm, and the regional banks Gumma, Kyoto and Chugoku. The new arrivals bring the total number of Japanese companies—banks, securities firms and insurance companies—tenanted in the building to 25. Almost a third of the Japanese-affiliated financial institutions moving into Hong Kong move into this building in an attempt to garner status or prestige in the world of international finance.

Rent Stabilization

The monthly rent at Exchange Square is 80 Hong Kong dollars (1 Hong Kong dollar is about Y19) per square meter, 15 percent or more higher than other first-class office buildings. That figure is nearly as high as rents in Tokyo's Marunouchi district and, thanks to the popularity of Hong Kong with Japanese firms, the rents have not come down at all since the Tianamen Square incident in Beijing in June.

Hong Kong Land, which owns Exchange Square and many other properties in the colony's financial district, employs some Japanese staff to assist in obtaining Japanese firms as clients. "Japanese regional banks and Dai-Ni regional banks make the best clients," says Akiko Jo, who has a reputation as an accomplished businesswoman. She makes frequent visits to all parts of Japan, hoping to increase the number of Japanese tenants.

In 1997—less than 8 years from now—Hong Kong will revert to China. As residents' apprehensions about the future heighten in the wake of the Tianamen Square incident, it is Japanese money that is shoring up this international center. If that money had been alarmed and its influx into Hong Kong halted, real estate prices would probably have fallen, dealing what would have been no small blow to the colony, which is passing through a delicate period in the years just before it is to revert to China.

Japanese money is also the primary supporter of the large-scale international cooperative finance in the region that has taken shape in Hong Kong since June. Of a consortium of 32 banks financing a container terminal in what is deemed the largest Hong Kong dollar-based project ever (HK$15 billion over a little less than 10 years), fully 22 are Japanese. Just two American and two European banks joined the consortium.

A senior official in a Hong Kong Government office admitted that it became difficult to arrange large-scale financing for the project until the Japanese banks provided 50 percent or more of it. Japanese money may be the key to whether or not Hong Kong's return to China, which all the world is watching, goes smoothly.

Even among the fast-growing economies of ASEAN, Thailand's growth has attracted much attention. About 40 kilometers northwest of the center of the city of Bangkok, 15 Japanese companies, including Toshiba and Sony, are moving ahead with factory construction at the (Bankadi) Industrial Park overlooking the river.

The industrial park is a joint development of Mitsui & Co., Ltd., and Toshiba. Thailand has a rather weak infrastructure (social production base), so the two developers are planning to invite companies in by providing them with building sites and loading facilities. They will invest some Y4 billion in that construction itself; combined investment on the part of the companies moving into the park is expected to approach Y10 billion. Including the effects of moving technology to the area, the project will have a large impact on the Thai economy.

Total of 800 Hectares of Industrial Parks

In addition to Mitsui, Marubeni, Itoman and C. Itoh are all in the process of constructing industrial parks in Thailand. Combined, the four companies' plans call for a substantial 800 hectares of industrial parks. In the Philippines, Marubeni and the Mitsubishi Corporation are building an industrial park, as is the Sumitomo Corporation in Indonesia. The trend has spread across the entire ASEAN region.

One reason Japanese money exerts a particularly large effect on Asia is because of the overwhelming difference in the size of the economies involved. The GDP of countries such as Korea and Taiwan exceeds $100 billion, but that of Hong Kong and Thailand is still only about $50 billion. In fiscal 1988, Japanese direct investment in Asia totaled $5.5 billion, only about a quarter of its investment in the United States; even so, that investment still corresponded to over 3 percent of Hong Kong's GDP and a little less than 2 percent of Thailand's GDP.

In 1988, Asia's high economic growth areas shifted from Korea and Taiwan to ASEAN. That year, direct Japanese investment in Korea was down from the previous year and about the same as the previous year in Taiwan. By contrast, direct investment in ASEAN rose dramatically; it was 3.4 times that of a year earlier in Thailand and 2.4 times greater in Malaysia. The shift in Japanese money cannot be overlooked in accounting for the change in Asia's high-growth regions; it can even be said that such money controls Asia's growth.

Avoiding "Another Japan"

But some in Asia have become critical of the Japanese juggernaut. They have started to look doubtfully on the Japanese money machine itself, which gives rise not only to investment frictions but also inflates stock and land prices on the basis of swollen undeclared assets. Recently the Korean Government took the drastic step of introducing into the legislature a bill to limit residential preserves in the big cities, in an attempt to curb land speculation. This year Taiwan introduced a capital gains tax on stock transactions; in addition it has tried to put a stop somehow to runaway stock price rises by hammering out a clear policy for curbing illegal underground investment companies.

The purpose of Korea's new law, explains Presidential Economics Chairman and Secretary Mun Hui-kap, is to avoid a failed real estate policy like Japan's. The NIES (newly industrialized economic societies) that have been trying to catch up to Japan in an economic sense are being very careful not to become "another Japan" in other ways as well.

[8 Nov 89 p 1]

[Text] **Weak Point of a Financial Superpower: In Search of Policies for 21st Century; Questionable "Control Mechanisms"**

At dawn on Saturday, 14 October, Bank of Japan (BOJ) officials overseeing the exchange markets were awakened by telephone calls from the United States' Federal Reserve Board (FRB). The gist of the calls was to inform them of the New York Stock Exchange crash that had just occurred. The callers left their home phone numbers, but the dawn calls were no ordinary conversations.

Relying on Government Leadership?

First, both parties confirmed that they would at any rate stay in frequent contact with each other. Beyond that, the BOJ officials asked the FRB for its analysis of the stock market and what it was thinking of doing about it. They told the FRB that they had measures in place with which to handle a slide on the Tokyo Stock Exchange at the beginning of next week, in case that should happen; the FRB was relieved. In addition, the two sides discussed in detail the intervention prepared when the dollar fell. On 16 October, before the Tokyo Stock Exchange even opened for trading, BOJ officials had only one message for the FRB: "Quick countermeasures instituted through close contact with financial authorities in all countries averted a worldwide stock crash."

The International Finance Bureau of the Ministry of Finance holds the purse strings to the funds for intervening in the foreign exchange market. "No matter where we are, United States Treasury officials are always calling us on the phone," says a former high official of the bureau, emphasizing the close contact the bureau has with the United States. Throughout the day on 14 October, the Ministry of Finance and the United States Treasury Department finalized detailed plans for handling the stock and foreign exchange markets.

The "Ministry of Finance myth" has spread on Wall Street since it weathered the "Friday the 13th" storm. American economists surmised that the Ministry of Finance must have quietly told the life insurance companies and other institutional investors to buy stock on the Tokyo Stock Exchange on 16 October, or that it had requested institutional investors to buy stock on the New York Stock Exchange as well. This is the view that, via government leadership, Japanese money saved the day.

In the 3 years of the Great Depression that followed the stock market crash of October 1929, the Dow was off 90 percent from its pre-market peak; it took the market 25 years to regain what it had lost. That the stock market crash of 1929 led to the Great Depression was because "the United States, which was the world's largest creditor nation at the time, lost confidence in its own economic strength and embarked on isolationist policies," says Professor Toshihiko Hayashi of Osaka University. That it took the stock market just a year and 10 months to recover from the crash of 1987 is thought to be due to the presence of Japanese money. Expectations of Japanese money have been increasing daily.

However, it is no comfort to realize that the most effective means of averting worldwide financial disaster rests with the Japanese governmental leadership that controls this Japanese money. Those subject to such governmental direction, like Dai-Ichi Mutual Life Insurance Co. Director and Investment Division General Manager Masao Tsuji, also say that there is no way to hold the Ministry of Finance responsible for what happens when it demands that investors make clearly losing transactions. If it is true that other countries have unrealistic expectations of Japanese governmental direction, then it is also true that, when such hopes are dashed, the reaction, too, will be greater. Nor is it certain that the gigantic amount of Japanese money will not itself be the cause of disruptions of the markets. A world financial system undergirded by Japanese money has not yet become solidified.

Falling Savings Rate

Moreover, it is unclear how much staying power this all-important Japanese money has. It is certainly different from OPEC (Organization of Petroleum Exporting Countries) oil money, which dried up after only 10 years of prosperity. In contrast to OPEC, which sucked up the world's money by raising the price of oil, over which it had a monopoly, Japan's financial strength "is supported by the international competitiveness of its industry, which in turn is backed up by sophisticated high technology," according to Economic Planning Agency Economic Research Center Director Masaru Yoshitomi.

Even if Japan's current account surplus were to shrink in the middle of the 1990's to 1 percent of GNP, it is calculated that the nation's net assets would still total $7 billion. There would be no change in Japan's position as the world's largest creditor nation.

At the same time, some can be heard to voice fears that the strengths that support Japanese money are starting to crumble. "There is a strong probability that Japanese money will atrophy within the next 10 years," says Yamaichi Securities Economic Research Center Director Takashi Kato. There is a limit to the size of a current account surplus any one country can run and still be politically acceptable.

There is also a possibility that the savings rate will decline as the population ages. Also, some think that a change to a consumer-oriented lifestyle will reduce savings rates even further. Land prices—the source of the alchemy of undeclared assets—have been severely criticized both inside and outside the country as being abnormally high, and their reduction is being sought.

Investment in Research and Civilization

If in fact the time left to Japan as a financial superpower is shorter than one thinks, then it is necessary to seriously consider ways to use that capital to the best effect, both domestically and abroad, and to do so now, when Japan boasts money power. Nomura General Research Center Managing Director Kenjiro Hayashi suggests two areas of investment are indispensable: Large-scale investment in research and development for the purpose of maintaining that money power, and "investment in civilization" for the purpose of nurturing foreign human resources that understand Japanese culture and thought.

"Beyond aiming at the expansion of domestic consumption, there are many things still left to do," says Hitotsubashi University Professor Yukio Noguchi. He thinks that instituting an overhaul of the tax system combining amendments of the Rental Land and House Law, higher taxes on fixed assets and lower owner-occupied property taxes, would stimulate effective land utilization and allow a fair proportion of the excess capital currently going overseas to be recirculated domestically.

The wisdom of how best to utilize the power of Japanese money in the 21st century is now being tested.

Free Trade, Investment Area Initiative Welcomed

OW2101021390 Tokyo ASAHI EVENING NEWS in English 19 Jan 90 p 6—FOR OFFICIAL USE ONLY

["Economic Globe" column article by Yoichi Funabashi, ASAHI SHIMBUN senior writer: "An Alternative to GATT?—Free Trade and Investment Area a Good Idea"]

[Text] This is a year when the participating nations must make a true success of the Uruguay Round of multilateral trade negotiations of the General Agreement on Tarifs and Trade (GATT).

At this year's round, numbering the eight since GATT was instituted in 1948, the table is heaped with all the dishes a diplomat hungering for negotiation could want. There are plenty of new delicacies: Agreements for prevention of distortion of the trade flow by measures relating to investment, including a framework for trade in services, now constituting 20 percent of all trade, rules on intellectual property, which will smoothen trade in advanced technology, and obligation on local content and export limitations.

And there are older issues. In addition to the necessity to subdue urges for new non-tariff barriers, such as overuse of anti-dumping measures, there is the long-debated problem of improvement of market access. This has been vulnerable to domestic political pressure because of its impact on industries such as agriculture and textiles, and is so far unsolved despite GATT principles.

GATT talks have of late been compared to pedaling a bicycle. However, the present rounds do not seem to be making any progress, no matter how hard the negotiators pedal. The developing countries, including India and Brazil are as unyielding as ever on the newer issues; the European Community remains adamantly anti-dumping. On agriculture, Japan refuses to budge.

A rumbling is beginning to be heard from participants that the Uruguay Round may end up as nothing but a great framework and the presentation of a schedule for negotiations. Sadayuki Hayashi, head of the Foreign Ministry's Economic Affairs Bureau, says, "The real negotiations this time look to start only after the end of the negotiations of the round."

In answer to this perception of the present situation has come a thoroughly thought-out proposal by Prof. Gary Hufbauer of Georgetown University in the United States: The construction of a new international trade order in an entirely different forum from GATT ("U.S. Trade Policy: A Guidepost for the Bush Administration"; Twentieth Century Fund reports).

He suggests the formation of a Free Trade and Investment Area (FTIA) by the year 2000, to be made up of the 24 advanced countries which are members of the Organization for Economic Cooperation and Development (OECD), the trade between which constitutes 60 percent of the world total.

Departures from the principles of the GATT are increasing, in the forum of bilateralism as witnessed by Section 301 of the omnibus U.S. trade act (which authorizes economic sanctions to combat another country's continued unfair trade practices), and in the danger of formation of an economic bloc inherent in the unification of the European market. GATT, the counterforce to these movements, is hobbled by the necessity for unanimity of members, including developing countries, in order to pass new rules. The bicycle is in that much more danger of collapse.

Accordingly, says Prof. Hufbauer, there is a need for the countries of the OECD to take the lead. "An FTIA would encompass countries that embrace common democratic principles and whose economies are alike in standards of living, social security systems, and environmental protection.... [ellipses as published] It would soften the edges of emerging regional trade blocs; and it would provide a nonthreatening umbrella for freer trade and investment relations...." [ellipses as published]

The 1980s saw the first steps of movements like the EC toward the complete unification of its market, and of the United States and Canada toward a free trade zone. Prof. Hufbauer's initiative is to counteract the predispositions for these regional movements to harden into blocs, and to speed the formation of an OECD-based, free, impartial, multilateral trade system. "An OECD FTIA clearly has a political dimension," says Prof. Hufbauer. "The United States now faces the prospect of drifting further from Western Europe.... [ellipses as published] The strongest political argument for an OECD FTIA is that it might counter-balance the forces now working to separate the United States and Western Europe."

"It is a wonderful idea. It is a mystery to me why the OECD does not propose it," approved Makoto Kuroda, former vice minister for international affairs of the Ministry of International Trade and Industry, wholeheartedly.

"Extremely interesting," was the reaction of Ryuichiro Yamazaki, chief of the Foreign Ministry's First International Organizations Division. "We have been feeling isolated more and more often in GATT," he confessed.

Prof. Hufbauer admitted to this reporter that there would be criticisms of his concept, if adopted, as spoiling the momentum of propelling the Uruguay Round of trade negotiations or as trying to form a "rich man's club"; indeed, there already have, he said. However, he laughed, the constantly feuding proponents in the United States of free trade and the proponents of managed trade, on at least this one issue, have joined to offer unanimous support.

Editorial on Japan's Role in Asian Economy

OW1701005090 Tokyo NIHON KEIZAI SHIMBUN in Japanese 13 Jan 90 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Editorial: "The Polarization of the Asian Economy and Japan's Choice"]

[Text] The Asia and Pacific region, termed the "center of growth" in the world economy, has been polarized into those countries continuing to grow and those showing strong signs of stagnation.

The stability of domestic politics and society forms the decisive factor in this polarization. If only to soften the impact now on the Asia and Pacific region from Europe, which is being rocked by political reforms in the USSR and East Europe, ideas for strengthening regional cooperation in order to ensure economic stability are needed.

The recent economic situation in the Asia and Pacific region, particularly the west Pacific, embracing Japan, the Far East, China, Southeast Asia, and Oceania, resembles red and white dumplings on a stick.

If we look at countries sustaining rapid or stable growth as white dumplings, and stagnating countries as red dumplings, the dumplings on the west Pacific stick indeed form a white and red pattern: white (Japan), red (South Korea, China, the Philippines), white (ASEAN, or the five [as published] states of the Association of Southeast Asian Nations), and red (Australia and New Zealand).

The subject of greatest concern at present is the degeneration of the red dumpling second from the top. In South Korea, China, and the Philippines, changes such as political liberalization and economic retrenchment are upsetting the economy. The 1989 economic growth rate for the ROK was 6.5 percent, down from 12 percent in the previous year, while for China it was 2 to 3 percent, significantly down from the 11 percent of the previous year.

Need To Respond to China's Depression

The rapid growth in the international division of labor and the marked increase in intraregional trade in the Asia and Pacific region in the second half of the 1980's contributed greatly to the high growth rate in the ROK and China. At present, South Korea is suffering from stagnation of productivity brought about by 20 to 30 percent annual wage increases and instability in labor-management relations. A deterioration in the trade balance and stagnation in capital investment in the manufacturing sector have also surfaced.

Economic activities in China have continued to slow since the Tiananmen Square incident last June. Industrial production has not shown any increase and has even decreased, compared with the same month in the previous year. The deterioration both in the trade balance and in the balance of payments is also a subject of concern. The Chinese economy has entered a "Tiananmen Square depression." If things do not change for the better, China may face a serious debt crisis.

From the World Bank's "1990 World Debt Chart" and data gathered by the International Financial Information Center, there is a strong possibility that China's annual debt repayments (including both principal and interest), which used to be $4 to 5 billion a year as of 1988, may exceed $10 billion in 1991 or 1992. This is because, together with the peak of repayments for mid- and long-term public debts, China will be forced to increase short-term foreign borrowing to cover up for the shortage of foreign currency.

Chinese Government leaders have been telling foreign financial figures visiting China that "the opening of the market will be continued and economic reforms will be actively pursued." At the same time, they have also made statements adhering to the so-called line theory, saying "the introduction of a market economy is not for the purpose of switching over to capitalism, but for developing socialism," according to General Secretary Jiang Zemin. To the U.S., Japanese, and European leaders, who are contemplating how to deal with the Chinese economic crisis, such statements by Chinese leaders to foreign visitors are hard to understand.

On the other hand, the Chinese Government implemented a drastic depreciation of its currency by 20 percent in late 1989. This clearly shows its desire to further expand Chinese exports to the international market, which stand at $50 billion annually, and the difficulty of its position since it was forced to take such a measure. The rapid depression of the Chinese economy has been caused by the cooling of foreign economic relations as a result of China's political isolation following the Tiananmen Square incident.

China has been firmly incorporated into the framework of the international economy. If only to overcome the depression in the Chinese economy, whose import and export trade has reached $100 billion, restoration of relations with foreign countries is necessary. In view of the development in regional integration in the Asia and Pacific economy, including the Chinese economy, Japan and the other Asian countries have no other choice but to take realistic measures, such as resuming economic cooperation, in their policies toward China.

There should be efforts to open up brighter prospects for the Asia and Pacific economy.

The five [as published] ASEAN countries—Thailand, Malaysia, Singapore, Indonesia, and Brunei—will most probably continue the rapid or stable growth accomplished by last year. It is commendable that Indonesia, which has more than $50 billion in foreign debts and which is under the heavy pressure of debt repayments, is gradually alleviating this pressure through the expansion of exports of manufactured goods.

Three Conditions Toward a Pacific Economy

The fact that oil prices are recovering to the level of $18 per barrel, which is considered the average price, is also a cause for optimism for the oil-producing ASEAN states. It is desirable for Indonesia and Malaysia to strengthen policies to make use of this additional income to develop the industrial sector and to overcome the dilemma of an insufficiency of social capital.

Another issue in maintaining the export-oriented economy of ASEAN is the development of the local economy.

The ASEAN countries think of a dispersed type of economic development and social stability as inseparable. This will be the challenge for ASEAN in the 1990's. There is also a need for the investments and economic cooperation from the advanced countries to coordinate with such an economic and social development strategy in these countries.

There are clear-cut conditions for further progress in the process of integrated economic development in the Asia and Pacific region, where a tendency of polarization of the rate of economic growth and business conditions has become stronger: namely, the liberalization of the market, transfer of technology, and maintaining and accelerating the flow of capital.

These three conditions also apply to economic adjustment in South Korea, China, the Philippines, Australia, and New Zealand, where the economy has entered a phase of decline.

If the business strategy of Japanese companies and policy goals of the Japanese Government are to work for the development of the regional economy and for coexistence within this economy, the time has come for both the companies and the government to implement this so-called economic strategy for peace. As the European and American societies ponder the reorganization of the Atlantic society in light of the upheaval in Europe, the role of Japan and the Asian countries will be to establish a system of economic cooperation for the Pacific.

We hope that the Asia and Pacific Economic Conference (APEC) and other venues will formulate programs for concrete action from this broad perspective.

Editorial Urges Keeping Politics Out of Aid

OW1801080690 Tokyo THE JAPAN ECONOMIC JOURNAL in English 20 Jan 90 p 8—FOR OFFICIAL USE ONLY

[Editorial: "Keep Politics Out of Aid"]

[Text] Japan has unfolded a new European policy in the wake of the end of the cold war.

In a speech last week in West Berlin, Prime Minister Toshiki Kaifu announced a plan to offer wide-ranging help to Eastern European countries. It includes $1.9 billion in economic aid, the dispatch of a volunteers' corps of young Japanese and an offer of technical assistance.

Western industrial countries have so far limited their economic assistance to Eastern European countries to loans, which those countries have failed to make good use of. It is appropriate, therefore, that Japan is willing to provide management know-how and technologies acquired in the process of its own economic development.

Yet in offering aid to Eastern Europe, Japan must be careful that the money does not become too politically tainted.

In the U.S. and some European countries, there is strong sentiment that now is a good time to bring Eastern European nations into the capitalist camp by using economic aid as a weapon.

Unfortunately, such sentiments are a throwback to the cold war era since they stem from a mindset that pitches capitalism against socialism.

In the past, the U.S. and other Western nations have offered aid to countries moving toward capitalism but have cut it off when those nations recede even a little from that goal.

The result is that the U.S. has pushed many would-be aid recipients into the anti-U.S. camp. Such folly should not be committed again.

The most important thing is that no matter what system (socialist, capitalist or mixed) East European nations choose, Western aid should be offered to help them build their infrastructure.

A famous Japanese proverb says that without real property, there is no piece of mind. In this case, aid should be viewed as a way to help build Eastern Europe's "real property" or assets.

At a time when Japan's aid to developing nations is widely suspected of becoming more politically tainted, Japan needs to keep this proverb firmly in mind.

Finance Minister Hashimoto Views Market Movement

OW1601155490 Tokyo JIJI in English 1335 GMT 16 Jan 90—FOR OFFICIAL USE ONLY

[Text] Matsumoto, Nagano Pref., Jan. 16 (JIJI PRESS)—Finance Minister Ryutaro Hashimoto Tuesday expressed concern about the movements on the nation's financial markets, which he said are now prone to be influenced by rumors.

He is not pleased with the current conditions of the markets, where investors are also discouraged by such developments as internal confusion in East European nations and the Soviet Union and by uncertainty about Japan's political situation, the minister told a press conference held in the course of a stumping tour.

Hashimoto, however, clearly denied the rumor that finance ministers and central bankers of the Group of Seven [G-7] industrial nations might meet late this month.

The G-7's cooperative relationship regarding the foreign exchange market has not collapsed, he stressed. Makoto Utsumi, vice finance minister for International Affairs, who is to attend a G-7 deputies' meeting, has not informed Hashimoto of an imminent holding of a full G-7 meeting, the minister added.

The nation's financial markets remained troubled in post-holiday trading Tuesday.

On the Tokyo Stock Exchange [TSE], a leading market barometer, the 225-issue TSE stock average, lost as much as 666.41 points to finish the day at 36,850.36. This was the sixth largest single-day loss, following a decline of 731.91 posted Nov. 10, 1987, in the wake of the worldwide stock market crash in the previous month.

In government bond trading on the TSE, the benchmark 4.8 pct 119th series bonds, due in June 1999, traded at a yield of 6.820 pct, up 0.355 percentage point from last Friday.

On the Tokyo currency market, the yen continued to be sold, and the dollar closed the day at 145.75 yen, up 0.40 yen from Friday, after briefly touching a four-month high of 146.07 yen in the morning.

At the day's press conference, Hashimoto, however, denied that the stock market is in a state of confusion, saying that the current level of stock prices only matches the level in the middle and latter part of last November.

* Survey of Causes for High Consumer Prices

902A0037A Tokyo NIHON KEIZAI SHIMBUN in Japanese 14, 15, 17, 18, 19 Nov 89—FOR OFFICIAL USE ONLY

[Articles by Nikkei Price Issue Research Section: "Prices in Japan—Part 2: Regulations Which Spawn High Prices"]

[14 Nov 89 p 1]

[Text] Various government regulations currently in force present an obstacle to the adoption of measures to revise comparatively high Japanese prices from the international standpoint. Protectionist administration which prevents the entry of new business, the licensing system requiring payment of government fees, the import quota for agricultural products, and "ambiguous regulations" which are not unequivocally stated in law—these are the examples of the kinds of controls of which we speak. Although Japanese industries feel that these government measures are necessary to protect them, it will be the consumer in Japan who loses when a pricing mechanism weakens. In this article, the current state of "high prices brought about by regulations," criticized even at a place like the U.S.-Japan Structural Conference, will be examined.

"After going through a long tunnel, we have finally reached the point where we can open a store. Our feeling at this point is that we have paid dearly for this."—On the 21st of this month, Izumiya's Shiraume store (Kita-ku, Kyoto-shi) will open its door. However, Yu Hattori, director in charge of the Development Division's General Affairs Section, does not appear particularly happy.

It was in 1976 when Izumiya announced its plan to open the Shiraume store. After having gone through entangled negotiations with the local shopping mall for 13 years, finally they were allowed to open the store. The amount of the "bill" presented for this, however, was simply staggering. The deposit for renting the shopping center as a key tenant, as well as the actual rent itself, has increased some 30 to 40 percent during the 13 years. Moreover, the area to be occupied by the store has remained 7,050 square meters although the rent has gone up. 13 years ago, an area of this size would have provided a site for what would have been considered an enormous-size supermarket store, but today it is no more than "just an average-size supermarket," (Director Hattori).

When the loss of profit resulting from the long drawn-out negotiations is added to personnel costs and other expenditures required in connection with setting up a store, the cost to the company is prohibitive. If it is an independent store, interest on the land purchase fund must be paid, and, often, it is customary to use various types of support money and donations for "one-time solution money." Such pre-opening costs, in the final analysis, "must be added to prices," (Key personnel of the major supermarket).

Statistical figures reflect this. For example, according to the September survey on Tokyo price trends, shopping at supermarkets cost consumers 44 percent more in foodstuffs (18 out of 41 categories) and 64 percent more in miscellaneous household goods (in 16 out of 25 categories) than would be the case at general retail stores. The Large-Scale Retail Store Law stipulating arrangements which must be made with a local shopping center makes opening new large-scale stores extremely difficult; and, ultimately, consumers will be the ones who pay for these costly "negotiations" which take place over a long period of time. The distribution regulations, in which consumers are ignored, are considered responsible for this situation and attacked by the United States and other countries. Some in Japan would say, "The Large-Scale Retail Store Law is a law aimed at protecting major supermarkets already in existence," (Mr. Hiroshi Ono, president of Kasei, a new discounter of imported beef).

Kasei has 26 "discounted beef stores" which currently sell imported beef at prices lower than those at supermarkets by an average of 20 to 30 percent. For this reason, according to Kasei president, Mr. Ono, if existing supermarkets obtain information on the next site of Kasei chain store, they would work with local merchants in the area to prevent it. "In order to keep the prospective site of a new store secret, the time and place of negotiations with a land owner is kept in absolute secrecy, and place of negotiations is changed every time we meet," (Kasei President Ono).

Although the Large-scale Retail Store Law forces a newly opening supermarket to take on extremely high costs, once opened, the supermarket then would work to prevent the opening of other large stores; thus, a "price reducer" ends up becoming a "price hiker."

There are a number of such cases in which excessive control over the opening of new stores and the protectionist policy destroy competition, contributing to rigid pricing systems. For instance, consider banks' domestic remittance fees. Excluding the consumption tax, if the money is to be remitted to others, the fee is 800 yen (if handled by telegram, over 30,000 yen); if to oneself, the fee is 400 yen (same as above). Mr. Toshio Takeuchi, president of Credisaison (formerly Seibu Credit), says, "If we are to handle this, the consumer will get change back from 100 yen."

Banks' domestic remittances (by wire) are uniformly handled by the national banking data communication system, whose users range from city banks to agricultural cooperatives. Its total operating costs, although "not officially published" (Federation of Bankers' Association), are said to be approximately 20 billion yen. Since the number of remittances sent during a year are approximately 500 million, cost per remittance is 40 yen. Granted that personnel, system linkage, and other costs are involved, even so there is a big difference between 800 yen and 40 yen. Moreover, it is not logical that the major banks and medium/small size financial institutions should be charged the same amounts of fees.

At one time, the communication field was a monopolistic market protected by severe restrictions imposed on new business entries; however, finally these have begun to be loosened.

Next spring, Nippon Telephone and Telegraph (NTT) will offer the biggest price cut, the third time it has happened since the company came under private ownership. The current long distance telephone rate of 320 yen (daytime) per 3 minutes will be reduced by 15 percent to 280 yen (daytime). When this is compared with the rate offered before the NTT became a private company, the reduction rate is 30 percent. Faced with the NTT's new move, the second telephone and telegram company, which has been offering toll telephone service since September 1987, and two other new companies currently are looking into the rate reduction. This is an example of the effect produced by a competitive market in lowering prices.

Although this example does not provide altogether sufficient evidence, nevertheless, it does indicate the extent to which the easing of controls over new entries will contribute to lower prices. Professor Toshimasa Tsuruta of Senshu University points out, "The government control net covers 40 percent of the amount of "added value" in Japan. By easing these controls, we can bring about a society in which consumers are well served."

[15 Nov 89 p 1]

[Text] "My customers tell me that they should never, never complain about the consumption tax which I add to their taxi fares," began Masaki Takeda, president of Konpira Taxi in Tokushima City. There is, however, a good reason why his customers would not complain. The fare for the first ride (for medium-size models) had remained at 250 yen for 15 years ever since 1974, and even with a 10-yen increase which became effective in April, the fare still is only 260 yen. Since the city's other taxi companies had raised their fares from 450 yen to 460 yen, the difference remains at 150 yen.

The operational basis of the taxi business, viz., price (fare) and quantity (the number of vehicles), is under the control of the Ministry of Transportation (Local Transportation Bureau). Pricing is based on the principle of "rides to the same area being charged the same fare." As Kunikatsu Yamashita, the ministry's chief of the Automobile Business Section, concedes, "If people are going to criticize us for taking care of every aspect of the company business, we cannot argue the point because that is exactly what is happening;" there is little room for company management to be innovative, by establishing a discount set-up or by improving services.

However, Konpira Taxi's business operation is sound. Even though a single fare unit is low, the company's annual income per taxi is approximately 7.5 million yen, exceeding the average registered in Shikoku of 1.5 million yen. Mr. Takeda says, "Since we don't have to cruise around looking for customers, we have a high efficiency rate, and, furthermore, as a result, our automobiles last longer, too."

In 1983, when other companies raised their fares by 50 yen, Mr. Takeda applied for a 30 yen fare increase. His application to the Prefectural Land Transportation Office was rejected, the reason given being "Insufficient documentation." Although the Shikoku Transportation Bureau explains, "We could not accept the company's costing as being in line with effective operation," (Passenger Section) those associated with the Fair Trade Commission point out, "Their reasoning,—that the application was rejected simply because the increase is for the purpose of maintaining the difference in fares—does not make sense."

As demonstrated by the example of the taxi business, public utility charges in Japan are uniformally high compared with those in other industrial countries. According to the Economic Planning Agency's "Commodity Price Report 1989," electricity and gas are 1.4 and 2 times, respectively, as high as the U.S. standard charges. Statistically, the domestic air transportation rates (per 1 kg), are lower than those charged in overseas countries; in actuality, however, one cannot help feeling that the Japanese fares are higher than those charged in the United States, where a wide variety of discounts are offered throughout the country. The relative importance of the public utility charges to the consumer price index is no more than 15 to 20 percent; however, when we consider how they affect other prices, it is safe to state that it is pushing up the total price level."

"Perhaps Sakae and the Japan Air Lines are arriving at peaceful solutions now?"—We hear rumors of this kind floating around.

Sakae Travel Service (Tamio Goto, president) filed a suit against the Japan Air Lines [JAL] in March of this year, seeking "compensation for losses suffered as a result of JAL's refusal to provide air passage on an imported air ticket." Concerning the matter of importing air tickets from Hong Kong and other areas/countries which offer cheap fares and using these purchased tickets, cutting off the portion for travel to Tokyo, Japan Air Lines took the stand that such action would be in violation of the IATA (International Air Transportation Association) rules, stipulating that "traveling must be done sequentially beginning at the starting point." On this basis, air passage was denied.

The JAL-Sakae reconciliation rumor was reported at just about the time when, overseas, the European Community (EC) Court ruled that "the imported air tickets do not constitute a violation of the EC law," questioning the legal validity of the establishment of fares pursuant to IATA rules as being the only method. When we traced this rumor, we found its basis to be a billion yen-unit of JAL domestic air tickets coming into air ticket agency via Sakae during the past few months. When asked bluntly about this rumor, President Goto stated, "I will not consider any compromise, as my goal is to receive a judgment in the matter." He then continued aggressively, "There are many pipelines through which we can purchase tickets. My next aim is to lower rigidly set domestic fares." The reason why cheap domestic air tickets are being circulated is due to the inflexibility found in the lower section of the regular fare structure. The regular fares for individual travelers offer only a few options such as a 10 percent roundtrip discount.

On the other hand, with sales promotion strategies of air lines as a background, promotional discounts for large corporate accounts and travel agents are brought into air ticket services. When air tickets are issued with these discount coupons, purchasers can get discounts of from 5 to 10 percent. If a tour package is purchased, "it is possible to get a discount of as much as 55 percent," (a travel agency in Tokyo). The price of the tour package, which includes accommodations, is often no higher than that of the regular air fare.

Only those who are close to information sources and have the leisure to travel can benefit from this kind of substantial fare reduction. The key staff of the Planning Agency suggests, "We should have a flexible system which benefits all people established as soon as possible whereby discounts would be offered during off-season periods or during certain time spans."

Since the spring of 1988, the JR-Eastern Japan introduced the express train ticket, offering a lower-than-the regular train fare between Shinjiku and Kofu. This offer of a discount helped to increase the number of passengers per day by 13.9 percent in 1988, and by approximately 10 percent in the first half of 1989. This discount ticket would not have materialized if it had not been for the competition from the bullet bus. The soil on which the transportation fare competition will be played out is beginning to take shape. It is up to the government to decide whether such a movement should be regarded as a rip in the seams of control which requires sewing or as a benefit to consumers which the government should promote.

[17 Nov 89 p 1]

[Text] "Why does it take this long and this much money to bring a car bought overseas into Japan?"—Mr. A, a company employee who lives in Tokyo, said in disgust.

It was in early March of this year when Mr. A. was transferred back to the Tokyo main office after completion of his 3-year assignment with the U.S. office. Since he wanted to bring back a West German-made "Mercedes Benz 300E" purchased for $40,000 (approximately 5.6 million yen) in August 1988, he went through the formalities required to ship it to Japan and then went home. However, it was not until last October that his car finally was delivered to him. Although the car had arrived at the Port of Yokohama at the end of March, it took almost 6 months to process the car through the customs and vehicle inspection due, in part, to the waterfront workers' strike which lasted almost a month. Moreover, in addition to the shipping charge of 600,000 yen, he was required to pay for work to be done on the car enabling it to meet Japanese safety standards, for the inspection fee, the weight tax, and for automobile liability insurance, totaling 1.7 million yen.

The similar model Mercedes Benz is sold for 7.5 million yen, which includes all the costs mentioned above, in Japan. If the car is bought in the United States, even if it is an imported car, the price is substantially lower; however, if one considers the inconvenience of not having a car for 6 months and the costs of individual importation, it would appear that any savings gained through the difference in price are cancelled out.

As the Japanese economy is becoming internationalized and the number of employees assigned to foreign countries is increasing, "More and more people have asked us for information on how they can take their cars back to Japan," (Hidemi Shiihashi, president of Again Corporation [as published]). However, unless these cars are priced substantially lower than those sold in Japan, these owners will end up paying more.

Even if car buyers eliminate agents and use parallel importers who offer almost the same setup of importing automobiles as individuals, they still will be required to pay for the time and money required to go through all the necessary formalities.

Take, for example, the standard inspection required to determine whether the gas exhaust control code has been met. The inspection fee is approximtely 280,000 yen, and only two auxiliary organizations of the Ministry of Transportation and the Ministry of International Trade and Industry have the authority to perform this. The regular import agency needs to have only one out of 100 vehicles inspected if the model concerned already has the approval of the Ministry of Transportation. The individual imported car, on the other hand, "lacks reliability" (the Ministry of Transportation), and, even if it is a new car of the same model, one out of 10 vehicles must be inspected. In the case of the import agency, the inspection requires only 1 to 2 weeks, while the individually imported vehicles must line up for their respective turn; and, usually, the waiting period is 2 months or longer.

Consequently, in the case of these vehicles, it is not only the inspection fee which is costly but the interest rate charged during the waiting period is an additional cost factor for the purchasers of automobiles. The (Again) Corporation claims that the automobiles handled by them are priced on the average 20 to 30 percent less than those that come through the import agency route. Shiihashi, the company president, insists that "if we streamline the system, the individually imported vehicles can be priced even lower."

Agricultural products are typical examples of how much import regulations and systems are pushing prices up. Aside from such products as rice, wheat, and butter whose importation is prohibited and considering low-priced foreign agricultural products which are allowed to enter Japan, we note how their prices jump once they reach a Japanese port, where they will be subjected to high customs duties, import quotas (IQ), import charges, and the system which imposes "tie-in purchases" of domestic products.

Last March, the Federation of Economic Organizations estimated the effect of import charges on price increases; what they found was that the price of raw sugar imported at 30 yen per a kilogram jumps to 119 yen after the customs duty and import charge have been levied. When the cost to produce refined sugar and sale-related costs are added, the final price is over 6 times as much as the original price. Although ostensibly all this has been done to "protect Japanese farmers," it is the consumers who are stuck with the bill. Moreover, the controls of manufactured goods, whose importation should have been liberalized recently, are increasingly tightening.

"It's a harassing tactic designed to prevent the importation of U.S. manufactured goods," was the angry comment of Mr. Yasuda, executive director of Honke Kamadoya (Kobe City), a major take-out lunch chain. Since August 1988, this company has been importing frozen shrimp pilaf which uses California rice, the cost price of which is more than 20 percent lower than that of the domestic product."

In the case of frozen shrimp pilaf, if more than 20 percent is shrimp which is mixed with rice, it can be freely imported as processed hard shell seafood products. It was around summer of this year that the definition of "20 percent" began to change perceptibly. In the beginning, the term "20 percent" was applied to shrimp at the raw material stage. Now it has been changed to mean "unless the weight ratio of the shrimp exceeds 20 percent at the product stage, it will not pass customs." Since rice, containing water, expands in the final product stage, in order to maintain the 20-percent ratio requirement, the weight of shrimp must be increased by more than 10 percent. As a result, the import cost price involved has risen over 20 percent.

The response of the Food Agency, which has jurisdiction over the matter, is, "The definition of manufactured goods is the same as it was in the beginning. The importer must have misunderstood us." However, Daiei, a company which also has been selling frozen shrimp pilaf since December of last year, put into effect a substantial price increase of over 40 percent since this October as a result of rise in import cost price. Currently, Kamadoya is considering a similar prise increase.

Various regulations imposed at the port of import push the prices of imported goods upward, which, in turn, affects the entire price structure. The Bank of Japan's Statistical Survey Bureau has estimated that import controls, restrictions on new business entries, and high government fees have pushed the domestic whole-sale prices upward by over 3 percent. Of these factors, the effects of the import controls, constituting over 50 percent, are considered the most damaging.

Professor Susei Fukuchi, of Kyoto University's Economic Research Institute, points out, "Although some import controls are necessary for Japan, too many of those over agricultural products are illogical and cannot be accepted by the international society whatever explanations the Japanese Government may offer." From the standpoint of consumers, import regulations are beginning to be questioned.

[18 Nov 89 p 1]

[Text] The road which runs in front of the Shimono Liquor Store in Matsugaoka-machi, Chiba Prefecture, has a big-traffic back-up every Sunday; so much so that, at times, it becomes necessary for a traffic control patrol car to move in. At this store, foreign liquors and wines, displayed in the store, occupying an area of over 200 square meters, are sold for approximately 50 percent less than regular prices. On holidays, the store is packed with shoppers all through the day.

For the 16 years since the opening of the store, its president, Iwaharu Shimono, has been working on developing foreign trade accounts in order to maximize overseas purchase. Especially during the last few years, he has increased parallel importation at an accelerated pace, and has secured approximately 250 foreign seller accounts, the largest in Japan. However, the resentment of others in the same line of business of his success has escalated at the same time.

According to company President Shimono, a regular string of wholesalers located in the prefecture have refused to buy his merchandises. During the reconstruction of his store, a taxation office refused to issue a permit for operation at the store's temporary site; his application for the wholesale license for the sale of foreign liquors remains unapproved for almost a year, the reason given being that "its impact on other dealers in the area would be too great."

Such taxation offices as the National Tax Administration Agency are unwilling to provide any details, stating "Each individual case is handled differently." However, this official action is not in violation of Section 10 of Liquor Taxation Law which stipulates "the necessary condition for granting a license," and that it is up to the chief local tax official to decide. "If they issue a license for the wholesaling of low-priced foreign liquors, the self-contained liquor businesses, customarily run by the mutual consent of those involved will thrown be into chaos. If they accept the application, then they are obliged to issue a license, and so they shut the door to our face, as it were," says the company President Shimono sharply, with a voluminous sheaf of application forms, more than 5 centimeters thick, on the desk in front of him.

"For U.S. businesses operating in Japan, the biggest stumbling block is the ambiguity encountered in the regulations," said William Best, chairman of the Distribution Committee, American Chamber of Commerce of Japan (ACCJ), looking at the result of a survey conducted among 200 participating companies concerned with the problem of the Japanese distribution system.

For instance, when a certain U.S. business exported spices to Japan, the company was asked to agree to toxicity tests. The cost of testing $500 worth of merchandise was $2,000, while another U.S. company which has been exporting similar spices for the past 30 years has been able to do so without undergoing the testing formality. This is a typical example of a company compelled to waste its time and money because of ambiguous testing rules.

The U.S. electronic machinery manufacturer wished to offer a substitute while the original equipment was being repaired; however, when the company realized that such action was prohibited under the guidelines of the Ministry of Posts and Telecommunications, they withdrew the offer. This guideline, however, exists "in name only," and Japanese businesses use the substitution offer in the normal course of business as a means of keeping customers.

Regarding "regulations," which are not mandatory but followed in practice, "dead laws," which are not applied, and administrative guidelines for price stabilization and production coordination, Chairman Best comments, "There are too many gray zones with color neither black nor white."

"Flying Fresh," a company which specializes in imported produce, moved from Hacchobori, Tokyo, to Urayasu City, Chiba Prefecture, in August. Yoshiaki Kitano, the company president, smiled wryly and said, "the reason for this move is to get away from the troublesome quarantine requirement to which imported agricultural products are subjected."

For instance, asparagus, of which the company is the largest importer, arrives at 6 in the morning, but it will be, at the earliest, 7 or 8 in the evening before customs are through inspecting them. The company receives them on the following day, and it will take another day or two before they can be sorted out and shipped to stores. Fresh vegetagbles which arrive from New Zealand and Australia only 7 to 8 hours after their shipment wilt at the waterfront of Japanese ports. The move made by "Flying Fresh" is a measure of desparation to keep vegetables fresh.

"We want to deliver low-cost, fresh vegetables to consumers, but the incomprehensible complexity of procedures always prove a stumbling block for our efforts. Selection of goods to be inspected is arbitrary, and the inspection, itself, is the epitome of inefficiency. This kind of thing adds to costs, too," says company president Kitano in disbelief.

The Japanese quarantine, considered the most severe in the world, is creating a high degree of dissatisfaction, in both domestic and international circles. Last year, however, part of this system was improved, namely, the abolishment of quarantining tulip bulbs arriving from Holland.

The quarantine entails growing tulips from the bulbs so that their flowers can be checked for any viruses which might be carried by the plants, and once it has been ascertained that they are free of viruses, the second generation (children) bulbs will be shipped. This is a long-drawn-out inspection system, requiring a maximum length of 1 year. At an urgent request of the Dutch Government, limited to a total of 85 kinds of bulbs only, the Japanese Government has changed its quarantine method by sending an inspector to Holland in 1988 and 1989. Thanks to implementation of this change, in comparison with the previous year's figures, Holland's tulip bulb exports to Japan have almost tripled, recording some 3,300 bulbs, and the figure is still increasing.

In June 1989 the Economic Planning Agency prepared a report entitled, "The Economic Theory of Easing Controls." It introduces the facts concerning regulations which are ubiquitous in the transportation, airline, telecommunication, and distribution industries and searches for a means of alleviation. The report points out, "The existence of complicated procedures and opaque government guidelines for handling licenses, permits, authorizations, approvals, and notifications, ensures powerful controls." Moreover, it suggests, "In order to ease controls to a much greater degree, it is necessary to improve the operational side of the government work by promoting greater transparency in the entire regulatory system and simplification of the procedures."

Professor Tsuruhiko Nanbu of Gakushuin University, who served as a chairman of the Research association which prepared this report, says, "In reality, regulatory ramifications and administrative guidelines not clearly stated in laws are the columns which support a large regulatory system, thus pushing up prices in Japan and producing highly rigid price structures."

The ambiguity and complexity of Japan's deeply rooted administrative system are handcuffing and fettering Japanese industries.

[19 Nov 89 p 1]

[Text] A-1 Bakery, a bread manufacturer in Osaka City, sent 3,000 New Year's greeting cards from its Hong Kong store in two batches. It was a PR strategy aimed at developing international business. The results were: "the company saved approximately $53,000 by not mailing the cards in Japan."

The international rules stipulate that the international postage rate should be determined on the basis of the domestic mailing rate. Since Hong Kong's postcard rate of HK$1.4 (approximately 22 yen) was considerably lower than the domestic postage (40 yen at that time) the company saved the additional postage.

Perceiving this, many Japanese companies continue to send voluminous amounts of direct mail (DM) by air parcel and then send them back to Japan in order to save postage. However, it is in violation of the Universal Postal Convention rules if a resident of one country sends a bulk mail (in the case of Japan, more than 3,000 pieces of mail at one time) from a foreign country to his own country in order to profit from the difference in the two countries' postage rates. The Ministry of Posts and Telecommunications has a checking point at Narita and other ports of entry. Last year, 220,000 direct mail violations were recorded; and this number covers only those found out.

"If we use West Germany's discount system, we could save 300 million yen a year," says a man in charge of marketing for Sumisho-Otto Co., a catalog mail-order sales joint-venure company involving West Germany's Otto Co. and the Sumitomo Corporation.

Comparison of Japanese and German postage rates reveals that the postcard rate in Japan is 41 yen while in West Germany it is 45 yen in Japanese terms, and the first class mail charge, 62 yen in Japan and 75 yen in West Germany (according to the Ministry of Posts and Telecommunications' survey, based on the currency exchange rate of 75 yen per mark). Although West Germany is shown to charge higher rates in these two postal categories, it is an entirely different story when it comes to bulk mail, including the mailing of catalogs. Compared with the Japanese discount systems, offering a maximum of 30 percent discount for advertising materials and a maximum of 30 percent less for a catalog parcel than for a book parcel, West Germany's discount goes up as high as 58 percent.

The number of catalogs (of 2 types) which Sumisho-Otto sends out annually is approximately 3.6 million copies. If they all are sent by catalog parcel, the cost will be approximately 576 million yen, whereas, if the West Germany's discount system were employed, the cost would be no more than 270 million yen.

Since the U.S. and European discount systems require senders to sort out the mail according to postal number and area specified in detail and to load mailing material in a bag, we cannot compare them with the Japanese system without considering these factors; however, the United States Postal Service offers up to 88.1 percent discount depending on the particular requirement, and thus supports a wide variety of services to mail catalog sale business.

In the face of increasing demands for an expanded discount system, the Ministry of Posts and Telecommunications is cautious, stating "We want to have a clear view of how this would affect businesses' financial affairs." (Postal Bureau) According to Masao Kokura, chairman of Yamato Transport Co., "The postage rate of New Year's greeting cards could be cut by at least 10 yen."

The number of the 1989 New Year's greeting cards sent was approximately 3 billion. Since the Postal Service did not stamp them, required users to write postal numbers, and took as long as 1 week to deliver them, the cost should be about one-half that of the regular postcards. Chairman Ogura contends that the reason why the Postal Service cannot reduce the rate in accordance with the type of services offered is that they are sitting smugly on a monopoly free from any kind of competiton.

The cost of school lunches per meal is 264 yen if a community organization is in charge and only 146 yen if handled by private sector business. The Adachi District in Tokyo has changed its method of distributing and preparing primary and secondary school lunches in the 23rd district by transferring the operation from under the direct control of the community to private concerns. In 7 schools in which the new method of operation was first implemented, the cost per meal has been reduced by 118 yen, with the total annual savings per school amounting to 100 million yen. By 1992, all 119 school lunch programs in the district will be under the private management.

The survey made by the Local Government Business Administration Association shows figures for the average cost of garbage collection in 11 cities, including Kushiro City, under municipal administration to be approximately 16,000 yen, while, under the private sector management, it was less than 7,000 yen.

Professor Kiyu Sakata of Tokyo University points out, "If competition does not exist, it's the tax payers who will pay for high-cost organization."

Excessive intervention of the "government" adds to unnecessary costs. Consider, for instance, automobiles' safety marks. There are two kinds of marks, the SG mark issued by the Product Safety Association, under the jurisdiction of the Ministry of International Trade and Industry, and the TS mark issued by the extra-departmental organization of the Metropolitan Police Department. Each charges a user fee of 100 yen per vehicle.

Although Ho Mikami, Inspector of the Japan Traffic Control Technology Association, the issuer of the TS mark, insists, "The TS mark, which verifies that the car is being maintained by the official auto mechanic, is completely different from the SG mark guaranteeing only product quality in its objectives and insurance system," Shigeharu Okamoto, General Affairs Bureau chief of the Japan Bicycle Industry Association's Kansai branch, says, "Since manufacturers, themselves, participate in liability insurance, I want to see an integrated inspection system."

Government business is a type in which the principles of competition do not work well, and in which a double- or triple-chartered system is supported by hierachical sense of territorial rights.

It is the unnecessary "costs" incurred by government which should be eliminated, making a clean break.

Deregulation of Distribution System To Speed Up

OW2101011590 Tokyo THE JAPAN TIMES in English 20 Jan 90 p 9—FOR OFFICIAL USE ONLY

[Text] Deregulation of Japan's import and distribution buinesses will be speeded up to help narrow the gap between domestic and overseas product prices, the government and ruling Liberal-Democratic Party [LDP] agreed in a special panel session Friday.

Antimonopoly controls on domestic business activities will also be tightened to secure fair prices for consumers, according to the panel, which is headed by Prime Minister Toshiki Kaifu.

Japan's trading partners have been severely critical of the nation's high prices of imported goods, particularly liquor, manufactured goods, processed food and pharmaceutical products, in comparison with prices abroad.

At Friday's meeting, the panel outlined a package of 52 measures to help eliminate such price gaps.

The measures include strict monitoring by the government of imported product prices, an increase of official incentives to boost imports, lower public utility charges, stepped-up land price controls in urban districts and provision of detailed distribution information for consumers.

Also included are measures to tighten government regulations on exclusive import agent systems, which allegedly impede expansion of imports by individuals, officials said.

If traders or other companies are found to be engaged in unfair practices or are hampering the free flow of goods, the government will take stern punitive action, the officials said.

The government will submit the measures to the United States at a forum of bilateral trade negotiations being held in connection with the Structural Impediments Initiative talks, they said.

Most of the steps have been already endorsed by the government in recent months and have been financially supported in the 1990 national budget.

The announcement of the package was an apparent attempt by the government and LDP to underscore their determination to combat high consumer product prices before the upcoming Lower House election.

Agriculture Ministry Announces Beef Import Quota

OW1301004890 Tokyo JIJI in English 1342 GMT 12 Jan 90—FOR OFFICIAL USE ONLY

[Text] Tokyo, Jan. 12 (JIJI PRESS)—The Agriculture, Forestry and Fisheries Ministry said Friday it has fixed a beef import quota for Livestock Industry Promotion Corporation (LIPC) at 167,000 tons for the first half of fiscal 1990, unchanged from a year before.

LIPC, a government-affiliated body, is in charge of stabilization of prices of livestock products through buying and selling of these products.

The ministry will also decide a special quota for beef imported by hotels and trading firms which directly import beef.

The total of the annual ordinary quota for LIPC and the special quota in fiscal 1990 has been already set at 394,000 tons, up by 60,000 tons from the previous year.

Fiscal 1990 which starts in April will be the last year for such an import quota because the domestic beef market will be liberalized in April 1991.

Except for the 167,000-ton LIPC quota for the April-September term, the ministry will soon divide the remaining 227,000 tons into a latter-half LIPC quota and the special quota.

* Domestic Weapons Production Seen Essential

902B0039 Tokyo GUNJI KENKYU in Japanese Nov 89 p 60-72—FOR OFFICIAL USE ONLY

[Article by Kiyohide Kondo, former technical development officer, TRDI, Japan Defense Agency]

[Text] **Why Domestic Weapons Production Is Necessary: Superior Domestic Weapons Are Key to Deterrence**

Although amateurs call Japan a military power, that is laughable in the opinion of experts. War is waged by people, not money. The only way to compensate for weak military capability is to have better weapons than the enemy. The development of superior weapons will save lives.

Superior Weapons Heighten Deterrence

In the "Voices" section of ASAHI SHIMBUN on 7 September of last year, my mini-thesis entitled "Superior Weapons Will Heighten Deterrence" was published alongside another contribution entitled "new weapons development increases anxiety." Naturally, there was a reason why these totally opposite views happened to be published together. An article in ASAHI SHIMBUN a few days earlier reported that the Technology Research and Development Institute (TRDI) of the Japanese Defense Agency (JDA) and Mitsubishi Electric Corporation had developed an intermediate range (IR) guided missile with a range of several thousand meters for use in air attacks on naval vessels; that it would be mounted on the FSX (next-generation support fighter) and other aircraft and was becoming a fundamental concept in Japan's defense; and that it was considered one of the decisive factors in early forward engagement strategy.

When I saw this article, I decided to write to "Voices." For some time, that section has published only articles which repeatedly submit the argument that "It is outrageous to manufacture weapons, in spite of the existence of the Constitution, which is worthy of the peace-loving Japanese people's faith in justice and truth, by using the false argument of the Soviet threat, when Article 9 of the Constitution prohibits the maintenance of war potential." Earlier, in May of last year, a "Japan's options" study group, which was headed by Masataka Kosaka of Kyoto University and composed of MITI [Ministry of International Trade and Industry] advisors and which was formed to create a new industrial culture nation, made the following proposal in its report: "Although Japan's high-tech industry should continue to be developed with the main focus on civilian technology and in such a way that business activity can be carried out freely, it is also necessary to participate appropriately in the defense sector in order to ensure that Japan does not fall behind in future international competition in advanced technology development. Especially since much of high-tech has both civilian and military application, the spinoff from military to civilian technology is not slight. Also, it is necessary to address in an appropriate manner technical exchange in the military sector and other forms of U.S.-Japanese cooperation on the basis of the U.S.-Japan Security Treaty." I and others heartily agreed with this view, not only from the practical consideration that this will further strengthen the international competitiveness of the Japanese hightech industry, but also because it actively confronts an issue that we have always avoided, that of fulfilling Japan's security obligations. However, as soon as the report was issued, "Voices" published an article entitled "Defense Industry Buildup Misleading the Nation." It said that "Without a doubt, this proposal has struck terror in the hearts of the majority of the Japanese people, who pray for the upholding of the peace constitution. This industry characteristically cannot be controlled once it begins to expand, and the consequence will be the devastation of peaceful industries." This brought home once again the underlying current of Japan's deep-rooted "weapons allergy," and I decided that someday, I would submit my views to shed some enlightenment on the subject.

For reference, I will reproduce my mini-thesis:

"When a man is hit, he hits back; this is a man's law. A true believer in nonresistance would be satisfied to be beaten to death, but the result would be to allow evil to run rampant, and the person would be held in contempt as a coward who had abandoned his responsibility as a man. The same principle holds absolutely true for a nation, which is a collection of people. Thus the right of self-defense to protect Japan's independence and peace existed even before the constitution. Although we are being urged to believe in the good intentions of the Soviet Union, we cannot accept this unquestioningly when we see the illegal occupation of the four islands of the Northern Territories by the Soviets or their actions in Hungary and other countries. That is the reason for our Self Defense Forces (SDF) and the U.S.-Japan Security Treaty.

"Amateurs call Japan a military power, but to us experts, this is laughable. Certainly, Japan is prominent in the world as far as money is concerned, but war is waged by men, not money. In terms of men, Japan's troop strength of 270,000 regular troops and about 40,000 reserve troops falls below 15th place in the world. The only way to compensate for inferior troop strength is to have weapons that are superior to the enemy. The other day, there was an article about the IR guided missile. If such weapons are developed in great number in Japan, any country will abandon the idea of invading Japan. The development of superior weapons will save lives."

Incidentally, the article that was critical of the IR guided missile which was published at the same time as mine stated that "(The development of this missile) is contrary to a civilization with a constitution that prohibits the maintenance of war potential. On top of that, it is joining with merchants of death to actively promote military expansionism with an excessively hostile attitude against the Soviet Union." This was the epitome of the stereotypical reaction to this subject. I was appalled at the persistence of anti-SDF sentiment in this reaction, which is shown at every opportunity, and I was glad that I had expressed my own views.

However, the regular contributors to "Voice" apparently could not tolerate my views. A few days later, a polite note from the person in charge appeared in "Voice." It stated that "as of 16 September, 65 articles giving opinions on Mr. Kiyohide Kondo's contribution have been received. All were critical; none agreed with Mr. Kondo." Two articles which apparently represented these opinions were also published. These also were stereotypical views in which emotional reactions such as "for an instant, I could not believe my eyes" and "like a bad dream" took precedence. They showed no capacity to comprehend my thesis, which was, "use Japan's superior hightech as a deterrent."

Nevertheless, I considered it fortunate that my mini-thesis had been read and that 65 people had sent rebuttals.

I do not differ from these people at all in the desire for peace, but why is there such a difference in our views? There is only one reason! They do not want to think about a time when peace is broken. They have not realized the tragedy of being faced with invasion by an enemy with powerful military capability and being forced to surrender and abandon the pride of independence and the blessings of freedom.

Then I sent in another article, and fortunately, it was published in "Voice" on 2 October under the title, "The Necessity To Think About Unpleasant Things." The following are the main points of the article:

"I too believe that it is wonderful to call for peace. However, that is by no means the complete antithesis to maintaining self defense capability. To refuse to consider a time when peace is broken renders one unqualified to debate international politics.

"Even Chief Justice Fukushima, who ruled in the Naganuma suit that the SDF had violated the Constitution, said that if invaded, the Japanese people should resist. However, if we merely resisted, we would all be killed. That is why I say that we need superior weapons.

"Indeed, the SDF uses the word 'buki' instead of 'heiki' for 'weapons.' The former inherently means 'deterrence' because the individual elements in the Chinese character have the meaning of 'restraint on arms.' My argument is that this deterrence should be heightened through development capability, or brain power, not through costly numbers. Brain power is unlimited, and under civilian control, there is no danger of getting caught up in a global race to develop new weapons and bankrupting the country with defense expenses."

"Voice" did not carry any re-rebuttals, but it published two articles from each side of the argument that was aroused by my article. Therefore, it can be said that "Voice" handled the matter even-handedly and left the readers to judge for themselves.

Swords That Allow People to Live

Chief Justice Fukushima, to whom I referred in my second article, retired recently. He became famous as the only chief justice in Japanese judicial history to rule that the SDF violated the Constitution, and undoubtedly was a hero to all anti-SDF people. However, they probably did not know that he was by no means preaching submission.

In the text of his ruling, Fukushima clearly stated that "In response to imminent invasion, police action to eliminate that danger and an armed uprising by the people are acknowledged as legitimate means to exercise a nation's right to self-defense."

However, what is meant by arms? Stones? Bamboo spears? Molotov cocktails? Fukushima did not say. Did he really believe that such means of exercising the right to self defense could prevent an invasion by an enemy with tremendously powerful military capability?

Former MITI Vice Minister for International Affairs Naohiro Amaya has made the following statement regarding Japan's defense:

"Article 12 of the Constitution stipulates that 'The freedoms and rights guaranteed to the people by this Constitution must be maintained by the constant endeavor of the people.' What does 'constant endeavor' mean? If attacked by a foreign country, to immediately surrender would be an irresponsible renunciation of that 'constant endeavor.' That term must include fighting to save one's life. Article 9 of the Constitution simply renounces war as a means to settle international disputes. It is clear, when read in conjunction with Article 12, that surrender is not being required."

This is an extremely clear-sighted view. The organization that implements this 'constant endeavor' is the SDF. A capable SDF certainly must be armed with superior weapons. I will not deny that weapons have the aspect of being tools for killing people, "swords that kill," as it were. However, since ancient times, there is a Japanese phrase that means "swords that allow people to live."

"Swords that allow people to live" are righteous swords that cut away immorality, injustice, and delusion and allow people to live. They are the heart of the saying, "the secret to winning is not to fight," and in today's language, they would be called "deterrence."

The true meaning of my thesis becomes clear when it is read as follows: "The ability to develop 'swords that allow people to live' will in fact save lives." Therein lies the pride in the development of new weapons. To brand the defense industry as "merchants of death" is to confess ignorance about the spiritual culture.

Participation in National Defense

While I cannot accept Chief Justice Fukushima's ruling that the SDF violated the Constitution, I can appreciate the spirit of "armed resistance by the people," which he cited, as being consistent with a fundamental national defense ideology of "defending one's country with one's own hands." The SDF is the most efficient practicing organization to carry that out, but it does not mean that the people have contracted out the defense of the nation to the SDF; the true meaning is that each person has a share in the national defense.

People often argue that the SDF may not be able to really protect the people in a war fought on Japanese soil. They point to the fact that Japanese forces had not been able to protect the people during the Okinawan war. Generally speaking, however, the military should protect the people's independence and freedom of thought, not necessarily the life of each individual citizen. The military is no more than an entity that fights along with the people as the core of the people's resistance. Shouldn't we first debate how the people themselves will fight alongside the SDF?

One method is the volunteer army and another is partisan warfare. Japan should be able to do what was done in Poland and France in the Second World War. Above all, the brave fight put up by the people of Okinawa certainly had a tremendous impact on the military leadership of the Allies and is forever etched in history as a proud moment for the Japanese people.

Surely people in the industrial sector share this courageous spirit of the people. We can expect a broadening national consensus on defense in that work place.

In June 1988, Nissan Motor Company added "manufacturing of weapons" to its articles of incorporation. On that occasion, Nissan's President Kume instructed all the company's employees that "Nissan will participate in the nation's defense. It is important to acknowledge that as one of our values." The favorite phrase of Mitsubishi Heavy Industries (MHI) Chairman Iida, when he was president of the company, was "Mitsubishi always goes with the nation."

Japan's top defense contractor's total annual sales are about Y1,708.2 billion, and only about 15 percent of that, about Y262.5 billion, comes from defense contracts. Apart from the aircraft and missile sectors, they can hardly be called major defense producers. To the contrary, massive prior investment is needed in the aircraft and missile sectors because the most advanced high technology is needed, and it is essentially the same for tanks, warships, and other sectors because ever-changing high technology must be incorporated. Thus the defense production sector as a whole must be a huge burden, from the short-term viewpoint of management of profits, the lifeblood of private firms.

Despite this, MHI Chairman Iida, a proponent of domestic development and production who opposed co-development of the FSX, when asked why domestic development was necessary, responded, "It is not because we want to get more work or more sales. It is because we really want something to shoot for that will nurture 'the power of innovation' and bring out the resourcefulness that will be needed in the 21st century." This may be taken as an allusion to MHI's responsibility for self-development of the next mainstay fighter for the 21st century and the sweeping scale of this industrialist's thinking is tremendously encouraging.

MHI took it upon itself to participate in part of Strategic Defense Initiative (SDI) research. Its motives coincide with the concepts of Kyoto University's Professor Kosaka, which were expressed earlier. This also showed that the pride of being Japan's top defense contractor made it not want to fall behind in the international race in hightech development. Moreover, it of course wanted to fulfill its obligation to cooperate with the United States in the military sector on the basis of the U.S.-Japan Security Treaty. Furthermore, out of a sense of responsibility for being in charge of licensed production of the Nike and participating in the planning of Japan's air defense system, it is anxious to get early access to ideas for the 21st century.

I cannot forget the young technicians from MHI who worked with me on tank development and with whom I discussed future missile concepts. They had an animated sparkle in their eyes, which came from being able to participate in the planning of Japan's defense.

The media loves to play up stories about people who have resigned from a firm when transferred to the weapons department because they could not betray peace. However, these are just very rare examples worthy of becoming news.

Military Technology and Civilian Technology

There is a theory that Japan took hightech seedlings that had been developed to fulfill the needs of U.S. military technology (including space technology), and with natural dexterity and superior production technology, it beat the United States in turning these seedlings into commercial products, and that now, Japan's civilian technology is more vigorous than U.S. military technology. It is said, for example, that the U.S. military technology camp is looking intently at Japan's integrated circuits (IC), charge coupled devices (CCD), information retrieval solid-state image sensing devices (IRCSD), gallium arsenide semiconductors, and carbon fiber reinforced plastics (CFRP).

It also is said that, on the other hand, Japan's military technology is able to develop very efficiently by absorbing spinoffs from Japan's civilian technology, the most advanced in the world.

While there is no discrepancy in the facts, it needs to be expanded to avoid misunderstanding. In both military and civilian technology, the component technologies are developed and compiled to produce weapons or commercial products. It is that method of compilation, the so-called system integration technology, which completely separates military technology, such as the Apollo project that send humans to the moon and the SDI project, from civilian technology, such as video cameras.

Recently in Japan's military technology as well, fairly advanced weapons system integration technology has been mastered, with results such as successful development of a totally domestic T-4 intermediate level trainer and the SSM ground to ship cruise missile and the soon to be completed type 89 tank. However, it cannot be denied that there still is a broad gap in military technology between Japan and the United States.

The biggest motive for accepting codevelopment of the FSX and for defense firms such as MHI to take it upon themselves to participate in SDI research must be to further master this technology through competition with others.

As in the adage, "necessity is the mother of invention," superior component technologies will be born from both military and civilian technology. The factor that will trigger competition and accelerate development in military technology will be war and in civilian technology it will be cost.

However, there is nothing inherent in the component technologies to categorize them by usage into military and civilian technologies. They are "dual use technologies," and that is why the U.S. military technology camp is looking intently at Japan's superior civilian technology and is extremely wary about its proliferation in the communist bloc.

Nevertheless, moving ahead with mutual exchange of weapons technology under the U.S.-Japanese security system should have great significance in solidifying our equal partnership.

The United States is promoting conventional defense improvement (CDI) along with SDI. Originally, CDI referred to making up for quantitative inferiority with quality and to the use of hightech in order to achieve a balance in conventional warfare capability in central Europe. For example, through the use of systems such as synthetic aperture radar and sense and destroy armor munition (SADARM), a pinpoint attack can be launched at enemy second echelon tanks at a depth of 150 kilometers, and the initial shock of that penetration would create havoc in the quantitatively superior Soviet armored corps. Japan also must come up with hightech weapons that will make this possible in its early forward engagement strategy, and the FSX, SSM and the type 89 tank can be considered the first step in that endeavor.

In the recent mood of detente, moves toward disarmament are inevitable, and it is not the right time to build up troop or weapon strength, but the argument that we only need to import as many weapons as is demanded is irrelevant.

It is extremely ironic that the Soviet Union, which is waving the flag of detente, is developing the FST-2 super-high-tech tank armed with an electromagnetic cannon. In Japan's case as well, high-tech weapons cannot be created if we just sit on our civilian technology that surpasses U.S. military technology.

The Weapons Importing Argument

The "Forum" section of ASAHI SHIMBUN of 10 August 1989 carried someone's article entitled "'inexpensive defense' through weapons importing."

This person maintained that military capability is composed of physical warfare capability (quantity and quality of weapons), human warfare capability (quantity and quality of troops), and resistivity (endurance under attack). The person asserted that Japan is roughly 15th in the world in physical capability, 20th in troop capability and last in resistivity, and then went on to state essentially the following:

"Why should we need the third largest defense expense in the world for that sort of military capability? One of the main reasons is that the cost of weapons procurement is tremendously high. If we decide to import all major weapons, we can get the world's newest types of weapons, which have proved themselves in battle in many places, at a fraction of the current procurement cost.

"Proponents of domestic weapons production claim that we will not be able to procure weapons in a crisis if we do not have domestic manufacturing capability. However, more countries have begun to produce weapons, and as the disputes in many areas indicate, funds are the only limit to the weapons that can be bought.

"Furthermore, the United States and the European countries put effort into areas where they are strong and import things that other countries make better, or they are entering into co-development. Japan, which has no prospect of developing a high-production munitions industry, should consider this global trend and aim for 'inexpensive defense.'"

As an example, the person presented data such as the fact that the predicted unit cost of Japan's type 89 tank is Y1.2 billion, whereas the M1 of the United States is Y300 million and the Leopard II of West Germany is around Y250 million.

With regard to this assessment, Japan's military capability need only be adequate to defend Japan and comparing its standing in the world is meaningless. However, there has been delay upon delay in the achievement of the "defense plan outline" that was determined as long ago as 1976 and work on contingency legislation has not even begun. Under such circumstances, we must be resigned to the fact that Japan's military capability is extremely inadequate.

However, military capability is the result of accumulated effort from the time that the military forces are created. Japan was handicapped by the fact that nothing was left by the old military system. Thus if successive government administrations since the war consistently had allocated 1 percent of the gross national product (GNP) to defense, the present hue and cry over the prominent rise in the rate of increase in the defense expense. The fact is, however, that the defense expense was well under 1 percent of the GNP for 20 years from 1967 to 1986, and we now are paying the bill for all those years.

Furthermore, there has been a great deal of publicity recently, as in this article, about the defense expense being the third largest in the world. It culminated in a newspaper report on 11 September about the "Doi concept," in which it was mistakenly reported that military capability itself was the third largest in the world, revealing the lack of discernment that characterizes reporting on this subject.

In the first place, the fact that Japan's per capita GNP surpassed that of the United States since 1987, when we are quite far from being as affluent as Americans, is because there is a fundamental difference in cumulative wealth and also because it is merely a trick of the exchange rate, which does not show actual buying power. The same is true of the defense expense. Also, the definition of defense expense is not necessarily uniform. The Soviet Union, for example, has always separated weapons procurement expenses and R&D expenses. Thus we must be careful about making simple comparisons. According to ASAHI SHIMBUN, in 1988, defense expense was $288.4 billion for the United States and $129 billion for the Soviet Union after correction to include the same coverage as other countries; these two countries were far ahead of Great Britain, France and West Germany, whose defense expenses were very similar; and ranking sixth and falling somewhat lower was Japan's defense expense, $29.6 billion at the rate of Y125 to the dollar.

The theory that Japan's defense expense is third in the world comes from including pensions to members of the former Japanese military. One can understand including pensions in the defense expense as a measure to maintain the volunteer enlistment system by raising morale by guaranteeing old age pension for volunteers, and in fact, pensions for SDF members already are included. However, it is illogical to go so far as to give consideration to settlement of the affairs of the former military, with which ties were cut by the end of the war, and include pensions for members of the former military, a huge amount that is almost half of the defense expense, thereby stretching the point so that Japan ranks third in the world.

Nevertheless, since Japan does have one of the largest defense expenses in the world, with regard to weapons procurement as well, while it will not do to lose money by buying cheap goods, the writer of the article was correct in pointing out that we must purchase economical equipment with outstanding cost to effectiveness ratios.

The core of the article was the contention that domestically produced weapons are too expensive, and since he cited the example of tanks, which happen to be my specialty, I want to use this as the basis of my argument.

When calculating the cost of weapons, all conditions must be taken into account.

The first thing to look at is effectiveness, or performance. A low initial cost of purchase can be cancelled out if service and supplies for maintenance is expensive. Therefore, we must discuss the life cycle cost, which includes the acquisition of parts for at least 30 years.

Initial purchase price can change depending on the number of initial parts and accessories that are included. Moreover, a share of R&D cost probably will be tacked on, so no one knows what the real price will be until after the negotiations.

The abovementioned article said that the Leopard II was around Y250 million, but according to the September 1983 "International Defense Review," the Swiss actually bought it for about Y1 billion.

The M1 originally was equipped with a 105 millimeter (mm) cannon, but from 1985, it became the M1A1 with a 120 mm cannon. I do not know which one the article was citing, nor do I know the price of the old M1, which has no export record. However, if the Y300 million figure comes from U.S. material such as the President's budget message, it is sheer nonsense.

It is nonsense because the M1 was manufactured by General Dynamics in a government facility under private management and the price does not include equipment investment or depreciation.

As for the type 89 tank, it is impossible to know the procurement cost because it is still in the budget request stage and the terms have not been revealed. To compare arbitrary data is total nonsense and on top of that, the exchange rate does not reflect actual buying power and further distorts the picture.

Assume that we import the Leopard II. For a certain period, we can keep it operating by using parts from the initial purchase, but when those are used up or if a needed part was not included in the purchase, it is not a matter of dropping in at the dealer, as in the case of a foreign car. Moreover, if we wanted to import parts, the price would be exorbitant, as is the case for original manufacturer parts for personal cars.

The Leopard II has been produced for 12 years, and production virtually has ceased. It would be foolish to think that the manufacturer will take on the responsibility for supplying parts to Japan over the next 30 years, even in a crisis when the need for parts will increase drastically. On the other hand, all parts for the type 61 tank can be purchased easily today, even after 28 years.

Moreover, after some use, we may want to make our own improvements, but without the blueprints, we normally have to give up and make do with the original version. Since all the problems in the life cycle as a whole must be taken into account, the purchase of a tank cannot be lumped together with the purchase of imported products in a supermarket.

Nevertheless, to a certain extent, it cannot be denied that the cost of producing a small number of various types of equipment will make the initial procurement of domestically produced weapons higher. However, for recent weapons, a design to cost method has been established, wherein cost control—the setting of an appropriate mass production cost within overall terms—is part of the design stage in order to maximize the cost to effectiveness ratio. The T-4 intermediate trainer is the first successful use of this system.

Also, please remember that with factory automation, Japan's biggest forte, even small quantity production of various types of equipment can be placed on fully automated lines to keep the cost down.

Above all, it is nonsense to compare the type 89 tank with the M1 and Leopard II, which were developed over 10 years ago. The 105 mm cannon M1 is out of the question, but even if the M1 with 120 mm cannon and 1,500 horsepower engine drive is the same as as the type 89 tank as far as so-called catalogue performance is concerned, it is completely different in terms of conformity with Japanese battle tactics and national conditions and the degree of incorporation of high technology. I will just touch on a few of those points:

(1) Making use of the fact that the Japanese physique is small, the height and width of the type 89 tank has been kept as small as possible to reduce target area, and total weight has been kept to 50 tons.

(2) By using high technology in the fire control system, and by adopting a guided firing method, the tank driver can search for enemy movement in any direction regardless of which direction the turret is facing and at the same time switch instantaneously to firing at any target with the touch of a button.

(3) Firing accuracy against moving targets and firing while the tank is in motion has been improved substantially by incorporating a TV automated tracking and firing system.

(4) By automating the loading of the main gun, firing speed has been increased and since loading by hand has been reduced as well, the tank has a three-man crew.

(5) The tank is equipped with a laser detection device which also is linked up with a smoke bomb launcher. Enemy antitank missile tracking also is enclosed.

(6) Continuing the tradition of the type 74 tank, the variable hydraulic pressure suspension will increase gun-crushing capability in the field, and the angle of the main gun is wider so that ridgeline firing can be used to advantage.

Points 1, 5, and 6 will raise survival capability, which is the highest priority item in modern tank design, while points 2, 3, 4, and 6 are indispensable elements in Japanese tank methodology, which stresses speed in order to annihilate the enemy as soon as they land by firing while in motion and rushing and overrunning the enemy's beachheads and airheads. Moreover, the 50 ton total weight is a limitation imposed by conditions under which tanks must operate on Japanese land, and neither the M1 or Leopard II can fulfill that requirement.

Also, Japan claims new materials technology as one of its strong points, and is a global leader when it comes to armoring, which is considered top secret by the great powers. Thus it is doubtful that the M1 or Leopard II would be exported with the newest type of armoring. Tanks produced by the new weapons producing countries, whose composite armoring is unreliable, would be even worse. How could we entrust the lives of SDF members to such tanks?

It is often said that Lanchester's second law, which expresses victory or defeat in modern warfare, states that effectiveness of troops or weapons is the square of their numbers and that the effectiveness of the ratio of the quality of troops and weapons, the so-called ratio of exchange, is often surpassed. There is a famous story about Admiral Inoue's finding fault with Fleet Admiral Togo's famous instructional address that "One gun that hits the target with every shot often is a match for a hundred guns that hit the target once for every hundred shots." However, hightech can easily expand that ratio of exchange to infinity, and the fact that "one cannon with an effective range of 40 kilometers often will defeat 100 cannons with a range of 30 kilometers" should be learned. It is nonsense to fulfill numerical needs with cheap goods.

I do not have time to comment on other weapons, but the underlying thinking is the same.

I would like to add that the aforementioned spirit of "protect one's country by one's own hand" flows in the hearts of defense industrialists as well and that we should not betray the spirit of "protect one's country with one's own technology" of these people who started with nothing after the war and worked hard to build the Japan of today. I think that this spirit will expand the national consensus on Japan's defense.

The resulting civilian technology will strengthen the international competitiveness of Japanese industry as a whole, and the profits are certain to go back to the people.

Licensed Production

The above is an argument of principles. In practice, it is impossible to develop all weapons domestically. Nevertheless, Japan has avoided off-the-shelf imports, including knock-downs, and has shifted almost all weapons to licensed production. In some cases, however, the significance of licensed production is lost because "black box" parts endanger supplies and servicing in times of crisis. Moreover, many off-the-shelf imports have been forced on us because of the producing country's policy of protecting its weapons industry. Also, licensed production teaches us production technology but not the crucial development know-how, yet we still are forced to pay high royalties that include development cost. On top of that, there is delay upon delay because of royalty negotiations and there have been cases where a weapon was outdated by the time production began. Therefore, licensed production is not a very worthwhile method.

Furthermore, licensed production is becoming successively more difficult because foreign weapons manufacturers believe that it helps nurture future rivals and they will only allow off-the-shelf exports. A symbolic instance of this was the FSX issue, in which U.S. Congressional circles tried to force Japan to buy the F-16 off the shelf.

The Codevelopment Argument

The above article concluded with an argument for codevelopment, and I can appreciate it. Originally, codevelopment was premised on joint use of the same weapon. Manpower, money, and technology was to be pooled and effectiveness was expected to increase geometrically. Along with that, share of mass production was to be commensurate with the degree of contribution, and advantages were to include cost reduction resulting from quantitative unity as well as standardization of application and supplies. Certainly the political effects to be gained through cooperation are great, but on the whole, a necessary condition was that it be a "give and take," paying proposition. Codevelopment is used actively for the production of commercial aircraft. In the case of weapons, however, there are problems such as differences in tactical concepts, and although codevelopment has been discussed repeatedly with regard to tanks and other weapons, it has always fallen through. However, I think that the search for interoperability will continue.

Because of Japan's principle of not exporting weapons, shared production cannot be considered and this form of codevelopment is impossible for Japan. However, various types of codevelopment are possible so long as there is give and take.

Take the FSX issue, for example. Japan could have developed the FSX independently, but codevelopment was a political compromise which was thought to be better than being forced to import the already outdated F-16 off the shelf in order to ease the economic friction between Japan and the United States. The "give and take" was to be ensured by giving license fees almost equivalent to the off-the-shelf import and a share of the mass production to the United States, while taking F-16 knowhow that could not have been gained through licensed production.

In "FSX Setback" in the July 1989 issue of CHUO KORON, Shintaro Ishihara said that this was a typically unfair contract. Although it does have that aspect, we have to appreciate its significance in opening the way for future co-development projects by Japan and the United States. Also, it cannot be denied that F-16 knowhow will facilitate FSX development and that being able to master the integrated system of a U.S. fighter that has been proven in actual combat is very significant. It can greatly accelerate our ability to independently develop Japan's next generation mainstay fighter, and this is the very thing that the United States fears the most. The symbol of that fear is the omission from the knowhow to be provided to Japan of information about the most advanced technology, such as flight source codes, and this shows the limitations of codevelopment.

There are many problems in connection with actual weapons, but when it comes to codevelopment of their component technologies, it is easy to seek profit for both sides and it is a good idea to raise efficiency through the exchange of technology. An arrangement between Japan and the United States already has been put into effect to provide weapons technology as an exception to the ban on the exporting of weapons. Isn't it time to expand this to other western countries? As stated earlier, most of these are dual use civilian technologies to begin with, and prohibiting their export is contrary to the principles of free trade. On top of that, the three principles on the exporting of weapons was not meant to cover exports to western countries, much less the allies.

This will give Japan the opportunity to participate in the production that will accompany codevelopment and only then will we get satisfactory results under the condition of give and take.

After retiring from the government, when I visited Israel, I was able to talk with the person responsible for development of Israel's tanks and absorb a wealth of actual combat experience. This sort of active exchange of technical information gleaned from actual combat would be invaluable to young people in the SDF and the defense industry.

The Defense Accessory Argument

I read a thesis by Mr. Kawamura in the March 1989 issue of this journal, entitled "Attacking the Deficient Weapons Policies of the Showa Era." Its content was almost the same as the article in "Forum" of ASAHI SHIMBUN, so I will refrain from repeating my rebuttal. Mr. Kawamura wrote that "there is the opinion that 'achievements in domestic development of weapons leads to learning, then advancement of technology, which becomes a deterrent to direct invasion.' This is the defense accessory argument, pure and simple." This differs greatly from my argument that domestic weapons development equals deterrence.

Mr. Kawamura wrote that deterrence does not function unless there is capability to actually deal with a situation, and this certainly is true. My response is that deterrence exists in peacetime and action capability in wartime. In the time lag between the two, the enemy may develop hightech weapons that surpass one's technology or use production capacity to beef up his equipment. On the metaphysical side, there is the potential of the kind of spirit of resistance that was shown during the Okinawan war. All of these things figure greatly in the effectiveness of deterrence.

It is difficult to understand why Mr. Kawamura expressed suspicion of former Prime Minister Nakasone's statement that "Some military officers think that we should simply buy weapons from other countries, but that is extremely inadvisable. Weapons must be produced domestically." This is in fact a warning that we often think only of preparing for "past wars" when we should independently devise weapons and strategy for "tomorrow's wars." When SDF soldiers have such weapons in their hands, the conviction of victory begins to grow. Also, I have heard that Air Self-Defense Force pilots already are placing much more confidence in a domestically produced F-15 than a knockdown F-15.

Mr. Kawamura appeared to thoroughly mistrust domestically produced weapons and Japanese industrialists. I happen to be well acquainted with the type 61 tank, which he cited, because I was one of those responsible for its development. As to whether standards might have been lowered in order to offset cost, I repeat that we should appreciate those industrialists' spirit of "protecting one's country with one's own technology."

Moreover, Mr. Kawamura presented specious arguments about the effectiveness of the armor on tanks in service, which every country keeps top secret. He assumed an air of expertise but he knew only enough to say that HEAT [high-explosive antitank] ammunition makes a hole the size of a pencil. If that were true, no country would have antitank missiles and the Soviet Union would not have hastily installed reactive armor on its new and powerful T80 tank.

I would like to stress further that the 90 mm cannon of the type 61 tank has always been produced domestically, from the first experimental model. The Bofors company had nothing whatsoever to do with it.

Defense Agency To Develop Supersonic Jet Engine

OW1201144890 Tokyo SANKEI SHIMBUN in Japanese 8 Jan 90 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Text] The Defense Agency [DA] will start developing Japan's first jet engine on its own for supersonic fighters, starting in 1990. This was disclosed by a government source on 7 January, and Y3.2 billion expenses for development of a trial engine were included in the DA budget for 1990. Reportedly, the DA aims at boosting Japan's jet engine technology to the world level. However, it is thought that this decision is a reflection of the negotiations held between Japan and the United States for joint development of the next-generation support fighters (FSX), in which the Japanese side, which did not have the know-how for development of supersonic fighters, was pressed by the U.S. side to make hard compromises regarding work sharing.

The DA, in its budget for 1990, had demanded Y5 billion for research into three "reignition engines," and development expenses for one engine were approved. The purpose of the research is to develop a turbo-fan engine, which will generate power for supersonic speed, by mounting afterburners on a turbine. The DA, for the time being, will aim at developing an engine with the thrust of 3.5 tons (7,700 pounds), more than twice as powerful as the "F-3 turbo-fan engine" (with 1.7-ton thrust), which was developed for the "T-4" medium training aircraft.

By obtaining cooperation from 20 companies, with Ishikawajima-Harima Heavy Industries Co, the largest producer of jet engines in Japan, as the central figure, the DA Technical Development Headquarters will promote the development and production of the engine. For the time being, the project will be promoted in parallel with the FSX joint development.

A future concept will be decided within the framework of the next-term defense facilitation plan, which will start in 1991. However, it will take at lease 10 years for development, and the final development cost is expected to reach some Y100 billion. It is possible that the engine may be used for a next-term advanced trainer "ATX," which will succeed domestically produced "T-2" advanced trainers with British-made engines, if prospects for its development and quantitative production become certain.

On the FSX joint development, Japan and the United States concluded a detailed agreement and exchanged official documents in November 1988. However, voices were raised in the U.S. Government and Congress, calling for security of the superiority of the U.S. aviation industries. In the spring of last year, the U.S. side strongly demanded that a limitation on the technical grant to Japan regarding the "F-16," the model for the development of the FSX, be established, and that the U.S. work share in the production stage be secured. The issue was solved after the Japanese side made concessions. It seems that the DA decided to strengthen its independent development capability because of the happenings regarding the FSX joint development.

On research for the reignition engine, a DA official said: "There is no precedent of developing 3.5-ton class engines in the world. We want to steadily promote the project by concentrating the highest technologies."

GSDF To Reduce Troop Strength in Hokkaido

OW1301030190 Tokyo YOMIURI SHIMBUN in Japanese 9 Jan 90 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Text] The Defense Agency on 8 January firmed up its policy to absolve the Ground Self-Defense Forces [GSDF] stationed in the north from their quick response organization adopted for contingency situations for Hokkaido. Under the policy, the strength of the divisions in the province will be reduced to the same level as that of divisions on Honshu and elsewhere in the south.

An action under this policy to "remove south" about 2,000 troops to Honshu and other southern areas will begin early this year. Japan's defense policy is formed around the primary premise of the possibility of Hokkaido coming under attack. Ever since the Self-Defense Forces were founded in 1954, they have continued to be built up in both quality and quantity under this premise. Among the reasons for abandoning the quick response organization may be the desire to cope with the social situation, which makes enlisting recruits difficult. But the Defense Agency claims that the dramatic easing of the East-West tensions has enabled this new policy to lower troop strength in Hokkaido.

Out of the GSDF's 13 divisions, four are stationed in Hokkaido on the basis of the quick response posture adopted in 1982. The strength for three of these division has been raised to the level of 75 to 90 percent of the table of organization. Compared with the strength level of 71 percent of the table of organization for the nine divisions on Honshu and elsewhere in south, which are organized for a normal situation posture, their organization for contingencies stands out conspicuously.

National Affairs

* Diet Electoral District Winners Predicted

HK1201023090—FOR OFFICIAL USE ONLY

[Editorial Report] The Tokyo monthly magazine SEIKAI SHUNJU in Japanese in its combined January-February issue, pages 24-32, carried an article entitled "Final Predictions for the Lower House Election," which it says will be held on 18 February. Listing the candidates in electoral districts throughout the nation, the article, based on information from SEIKAI SHUNJU's own reporters and "national newspaper political reporters," indicated which candidates are "certain winners," which are in a "strong" position, borderline candidates, and those merely listed without any notation. The "certain winners" and "strong" candidates are listed below; the prefectural electoral districts are noted as #1, #2, and so forth. Abbreviations for the political parties are LDP for Liberal Democratic Party; JSP for Japan Socialist Party; DSP for Democratic Socialist Party; and JCP for the Japan Communist Party.

"Certain Winners" by Electoral District and Party

DISTRICT	NAME	AGE	PARTY
#1 Hokkaido	Tsuneto Kobayashi	51	JSP
#2	Kozo Igarashi	63	JSP
#3	Takayuki Sato	61	LDP
#4	Toshiharu Okada	64	JSP
#2 Iwate	Ichiro Ozawa	47	LDP
#2	Reijiro Sawafuji	61	JSP
#1 Miyagi	Hiroshi Mitsuzuka	62	LDP
#1 Yamagata	Michihiko Kano	47	LDP
#2	Koichi Kato	50	LDP
#1 Fukushima	Tokuo Sato	61	JSP
#2	Masayoshi Ito	76	LDP
#2	Kozo Watanabe	57	LDP
#3	Naoki Tanaka	49	LDP
#2 Ibaragi	Seiroku Kajiyama	63	LDP
#2	Shunpei Tsukahara	42	LDP
#3	Kishiro Nakamura	40	LDP
#3	Yuya Niwa	45	LDP
#1 Tochigi	Hajime Funada	36	LDP
#1	Michio Watanabe	66	LDP
#2	Sanji Muto	64	JSP
#1 Gumma	Makoto Tanabe	67	JSP
#3	Yasuo Fukuda	52	LDP (new)
#3	Tsuruo Yamaguchi	64	JSP
#1 Saitama	Shizuo Wada	63	JSP (new)
#2	Toshio Yamaguchi	49	LDP
#3	Taneaki Tanami	57	JSP
#4	Norio Hosokawa	46	JSP (new)
#5	Hiroshi Sawada	71	JSP
#1 Chiba	Kenichi Ueno	58	JSP (former)
#1	Kazuo Torii	52	Komeito
#2	Shinjiro Yamamura	56	LDP
#3	Koichi Hamada	61	LDP
#3	Shogo Oki	67	JSP (new)

"Certain Winners" by Electoral District and Party (Continued)

DISTRICT	NAME	AGE	PARTY
#2 Tokyo	Shintaro Ishihara	57	LDP
#2	Tetsu Ueda	61	JSP
#3	Kazuo Saito	64	JSP (new)
#4	Naohiko Okubo	53	Komeito
#4	Zenmei Matsumoto	63	JCP
#5	Torao Takazawa	63	JSP
#6	Koji Kakizawa	56	LDP
#7	Sukeyuki Tsunematsu	49	JSP (new)
#7	Naoto Kan	43	Social Dem. Fed.
#10	Rikyu Shibusawa	61	JSP
#10	Natsuo Yamaguchi	37	Komeito (new)
#11	Sadao Yamanohana	53	JSP (former)
#1 Kanagawa	Hikosaburo Okonogi	61	LDP
#1	Shigeru Ito	61	JSP
#2	Junichiro Koizumi	47	LDP
#2	Sukio Iwatare	60	JSP
#2	Seiichi Tagawa	71	Progressive Party
#3	Mankichi Kato	63	JSP
#4	Shun Oide	67	JSP
#5	Yohei Kono	52	LDP
#5	Mitsuo Tomizuka	60	JSP (former)
#1 Toyama	Shuzo Yasuda	62	JSP
#2	Tamisuke Nishikini	62	LDP
#1 Ishikawa	Keiwa Okuda	62	LDP
#1	Yoshiro Mori	52	LDP
#1	Yuzuru Shimazaki	64	JSP
#2	Tsutomu Kawara	52	LDP
Fukui	Kazuhiko Tsuji	65	JSP
Yamanashi	Shin Kanemaru	75	LDP
	Risei Ueda	59	JSP
#1 Nagano	Isamu Shimizu	64	JSP
#2	Tsutomu Hata	53	LDP
#3	Sohei Miyashita	62	LDP
#3	Yoshinao Kushihara	63	JSP
#4	Shunjiro Karasawa	59	LDP
#1 Gifu	Yoshizo Watanabe	63	JSP (former)
#1	Masako Noda	29	Independent (new)
#1 Shizuoka	Aogu Matsumae	54	JSP
#3 Aichi	Toshiki Kaifu	58	LDP
#3	Kanju Sato	47	JSP
Shiga	Sosuke Uno	67	LDP

"Certain Winners" by Electoral District and Party (Continued)

DISTRICT	NAME	AGE	PARTY
	Masayoshi Takemura	55	LDP
	Ganri Yamashita	68	LDP
#2 Kyoto	Sueharu Yamanaka	64	JSP (former)
#2 Osaka	Masao Sakon	53	JSP
#3	Issei Inoue	57	JSP
#4	Masajuro Shiokawa	68	LDP
#4	Takuzo Ueda	51	JSP (former)
#5	Taro Nakayama	65	LDP
#5	Sadao Wada	64	JSP (former)
#7	Masao Nakamura	58	JSP
#1 Hyogo	Tamio Kawakami	64	JSP
#2	Kenzaburo Hara	82	LDP
#2	Takako Doi	61	JSP
#3	Takanobu Nagai	59	JSP
#4	Toshio Komoto	78	LDP
Nara	Seisuke Okuno	76	LDP
Tottori	Koken Nosaka	65	JSP
Shimane	Noboru Takeshita	65	LDP
	Daikichi Ishibashi	57	JSP
#1 Okayama	Satsuki Eda	48	Social Dem. Federation
#2	Mutsuki Kato	63	LDP
#2	Ryutaro Hashimoto	52	LDP
#3 Hiroshima	Shizuka Kamei	53	LDP
#3	Kiichi Miyazawa	70	LDP
#3	Tatsuo Komori	57	JSP (new)
#1 Yamaguchi	Shintaro Abe	65	LDP
#1	Yoshiro Hayashi	62	LDP
#1	Makoto Ogawa	57	JSP (new)
#2	Masahiko Takamura	47	LDP
#2	Katsusuke Ozawa	45	JSP
Tokushima	Masaharu Gotoda	75	LDP
#2 Kagawa	Hajime Morita	56	LDP
#1 Ehime	Mayumi Utsunomiya	39	JSP (new)
#1 Fukuoka	Ryu Matsumoto	38	JSP (new)
#2	Taro Asou	49	LDP
#2	Junsuke Iwata	52	JSP (new)
#1 Nagasaki	Tadashi Kuranari	71	LDP
#1	Takeo Nishioka	53	LDP
#1	Kenji Taguchi	59	JSP
#1 Kumamoto	Takeshi Noda	48	LDP
#1	Shoichi Tanaka	56	JSP (new)
#1 Oita	Tomiichi Murayama	65	JSP
#2	Mikio Abe	70	JSP

"Certain Winners" by Electoral District and Party (Continued)

DISTRICT	NAME	AGE	PARTY
#1 Miyazaki	Takami Eto	64	LDP
#1	Toshinao Matsuura	64	JSP (former)
Okinawa	Kosuke Uehara	57	JSP

"Strong" Candidates by Electoral District and Party

#1 Hokkaido	Nobutaka Machimura	45	LDP
#1	Hideko Ito	44	JSP (new)
#2	Yoshiteru Uekusa	50	LDP
#2	Hidenori Sasaki	55	JSP (new)
#3	Kazuo Okuno	63	JSP
#4	Tatsuo Takahashi	61	LDP
#4	Seiichi Ikehata	60	JSP
#4	Kenji Nakazawa	55	JSP
#5	Muneo Suzuki	41	LDP
#5	Shoichi Nakagawa	36	LDP
#5	Tetsuo Nagai	39	JSP-backed (new)
#1 Aomori	Tadamori Oshima	43	LDP
#1	Harumasa Seki	66	JSP (former)
#2	Kichiro Tazawa	71	LDP
#2	Hiroshi Yamauchi	60	JSP (new)
#2 Iwate	Motoo Shina	59	LDP
#1 Miyagi	Kikuo Toda	65	JSP
#2	Ichiro Hino	55	JSP (former)
#1 Akita	Takao Sato	54	LDP
#1	Keiji Sato	69	JSP
#2	Kanezo Muraoka	58	LDP
#2	Kenjiro Kawamata	63	JSP
#1 Yamagata	Noboru Endo	60	JSP (new)
#1 Fukushima	Tsuneharu Sato	54	JSP (new)
#2	Yukio Watanabe	64	JSP
#2	Kosuke Takisawa	64	DSP
#3	Kunikichi Saito	80	LDP
#3	Hisashi Suzuki	49	JSP (new)
#1 Ibaragi	Yuji Tokizaki	49	JSP (new)
#3	Takeshi Takeuchi	67	JSP
#3	Nobuaki Futami	54	Komeito
#1 Tochigi	Mamoru Kobayashi	45	JSP (new)
#1	Susumu Yasuda	62	JSP (new)
#2	Hiroshi Mizutani	47	Komeito
#2	Atsushi Kanda	48	DSP
#2 Gumma	Toru Sunaga	39	JSP (new)
#3	Keizo Obuchi	52	LDP

"Strong" Candidates by Electoral District and Party (Continued)

#3	Yasuhiro Nakasone	71	Independent
#2 Saitama	Jushiro Komiyama	62	LDP
#3	Eitaro Itoyama	47	LDP
#4	Eisuke Yamada	44	Komeito
#5	Kazuhito Wada	65	DSP
#1 Chiba	Hideo Usui	50	LDP
#2	Kiyoshi Mizuno	64	LDP
#2	Kunihiko Ogawa	56	JSP
#3	Kazuya Ishibashi	67	LDP
#4	Katsuo Shinmura	71	JSP
#4	Keiichi Morita	61	Komeito
#1 Tokyo	Kaoru Yosano	51	LDP
#2	Otohiko Endo	42	Komeito (new)
#4	Masato Okita	60	JSP (new)
#5	Takeshi Osada	58	Komeito
#6	Kazuko Yoshida	40	JSP (new)
#7	Yuriko Ono	47	Komeito (new)
#9	Osamu Shibuya	39	JSP (new)
#9	Iwao Nakamura	55	Komeito
#10	Hyosuke Kujiraoka	74	LDP
#10	Sukehiro Sato	56	JCP
#11	Makoto Saito	59	Komeito
#11	Emi Iwasa	50	JCP
#1 Kanagawa	Kazuo Fushiki	61	Komeito
#2	Yuichi Ichikawa	54	Komeito
#3	Nobuo Kawakami	43	Komeito (new)
#4	Takeshi Kusano	61	Komeito
#1 Nigata	Tatsuo Ozawa	73	LDP
#1	Nobuyuki Sekiyama	55	JSP
#2	Takashi Sato	62	LDP
#2	Masao Yoshida	66	JSP (new)
#3	Shin Sakurai	56	LDP
#3	Tomio Sakagami	62	JSP
#4	Nobutaka Tsutsui	45	JSP (new)
#2 Toyama	Akira Kima	59	JSP
Fukui	Wataru Hiraizumi	60	LDP
#1 Nagano	Masatoshi Wakabayashi	55	LDP
#2	Masao Horigome	47	JSP (new)
#4	Seiko Kitazawa	62	JSP (new)
#1 Gifu	Kabun Muto	63	LDP
#1	Shuji Fuseya	59	Komeito
#2	Yasuo Yamashita	47	JSP
#1 Shizuoka	Senbachi Oishi	54	LDP
#1	Yoshihiko Yabunaka	53	Komeito

"Strong" Candidates by Electoral District and Party (Continued)

#2	Yuko Kurihara	69	LDP
#2	Toshitsugu Saito	45	LDP
#2	Hideyuki Maejima	48	JSP
#2	Hitomi Kondo	55	DSP (new)
#3	Hiroshi Kumagai	49	LDP
#3	Takashi Motonobu	45	JSP (former)
#1 Aichi	Taisuke Sato	46	JSP (new)
#2	Hyosuke Niwa	78	LDP
#2	Takeshi Tsunaoka	61	JSP (former)
#4	Minoru Kawashima	53	JSP (new)
#5	Masaru Hayakawa	49	JSP
#6	Koshiro Ishida	59	Komeito
#6	Saburo Tsukamoto	62	DSP
#1 Mie	Chuji Ito	55	JSP
#1	Chikara Sakaguchi	55	Komeito
#2	Akihiko Noro	43	LDP
#2	Togo Sakakura	59	JSP (new)
#2	Hajime Tamura	65	Independent
Shiga	Tsutomu Yamamoto	57	JSP (new)
#2 Kyoto	Iwao Teramae	63	JCP
#1 Osaka	Teruji Kotani	63	Komeito
#1	Seiji Masamori	62	JCP
#2	Masaaki Nakayama	57	LDP
#2	Yoshiyuki Asai	62	Komeito
#2	Mitsuo Higashinaka	65	JCP
#3	Ken Harada	70	LDP
#3	Mikio Omi	54	Komeito
#4	Junya Yano	57	Komeito
#5	Kazuo Kitahata	36	Komeito (new)
#6	Megumu Sato	65	LDP
#1 Hyogo	Ichiro Watanabe	58	Komeito
#2	Masao Hori	73	JSP-backed
#4	Shigeru Goto	64	JSP (former)
#5	Kenji Yoshioka	51	JSP (new)
Nara	Nobuo Matsubara	44	JSP (new)
	Koji Morimoto	47	Komeito
#1 Wakayama	Keisuke Nakanishi	48	LDP
#1	Hiroichi Sakai	60	Komeito
Tottori	Kozo Hirabayashi	59	LDP
Shimane	Yoshio Sakurauchi	77	LDP
#1 Okayama	Keisuke Tanimura	57	JSP (new)
#2	Minoru Mizuta	64	JSP
#1 Hiroshima	Tadatoshi Akiba	47	JSP (new)
#2	Hidenao Nakagawa	45	LDP
#2	Tadayoshi Morii	60	JSP (former)

"Strong" Candidates by Electoral District and Party (Continued)

#3	Moriyoshi Sato	67	LDP
#2 Yamaguchi	Shinji Sato	57	LDP
Tokushima	Hironori Inoue	64	JSP
	Kazuyoshi Endo	46	Komeito
#1 Kagawa	Takao Fujimoto	58	LDP
#1	Yoshimi Mino	58	JSP
#2	Shigeaki Kato	42	JSP (new)
#2 Ehime	Takatoshi Fujita	66	JSP (former)
#3	Tsunetoshi Tanaka	64	JSP
Kochi	Masanari Goshima	50	JSP (new)
	Kenjiro Yamahara	69	JCP
#1 Fukuoka	Seiichi Ota	44	LDP
#1	Taku Yamasaki	53	LDP
#1	Yanosuke Narasaki	69	Soc. Dem. Federation
#3	Harumichi Hosoya	50	JSP (new)
#3	Tsuneo Gondo	59	Komeito
#4	Shozaburo Jimi	44	LDP
#4	Sekisuke Nakanishi	63	JSP
Saga	Koichiro Aino	61	LDP
	Tokuo Yamashita	70	LDP
	Katsuyo Ogata	51	JSP
#2 Nagasaki	Kuro Matsuda	67	LDP
#2 Kumamoto	Joji Fukushima	62	LDP
#2	Noboru Baba	64	JSP
#1 Oita	Eijiro Hata	61	LDP
#1 Miyazaki	Takashi Yonezawa	49	DSP
#2	Hisao Horinouchi	65	LDP
#2	Masanori Kitagawa	57	JSP (new)
#1 Kagoshima	Kanji Kawasaki	67	JSP (new)
#2	Sadatoshi Ozato	59	LDP
#2	Kiichi Murayama	68	JSP
Okinawa	Junshiro Nishikata	39	LDP (new)
	Eiichi Tamaki	55	Komeito

* Heisei Political Showdown Strategies Examined

902B0054A Tokyo NIHON KEIZAI SHIMBUN in Japanese 28-30 Dec 89—FOR OFFICIAL USE ONLY

[Six interviews with Japanese party leaders, Chairman Doi (JSP); Chairman Nagasue (DSP); Chairman Fuwa (JCP); Representative Eda (USDP); Secretary General Ozawa (LDP); and Chairman Ishida (Komeito); interviewer not identified, date and place not given]

[28 Dec 89 p 2]

[Text] The critical period for the formation of the FY90 budget has passed, and political attention has shifted to the lower house elections, which will be held in February 1990. All the parties give this election the status of a political showdown that will force people to choose a political system for the 1990's. Political party leaders, who are going to make a final dash as this year ends and the next begins, were asked how they will handle this showdown.

Japan Socialist Party (JSP) Chairman Takako Doi: Focus on Abolishing the Consumption Tax; Party Is Firmly United on Four-Party Coalition

[NIHON KEIZAI SHIMBUN] What will be your appeal?

Doi: Abolition of the consumption tax, of course. I also would like to focus on issues that we have been raising for a long time, such as the establishment of political ethics and the eradication of money politics. The 180 candidates we support include official and nominated candidates, and that is our goal. I may not have expressed myself adequately from the beginning, and there have been various misunderstandings. The ground is not shaky in every part of the country. We are continuing to work hard in every election district.

[NIHON KEIZAI SHIMBUN] Election cooperation among the opposition parties is not going well.

Doi: The coalition was launched just last month. Since then, we have been making progress. Until now, there has never been consultation and cooperation among the four opposition parties, Rengo [National Confederation of Trade Unions], Sohyo Center and the fellowship conference [as published]. We knew from the beginning that it would be difficult, and I would like to see more highlighting of the positive aspects.

[NIHON KEIZAI SHIMBUN] There are no prospects for a coalition government council.

Doi: We are not going to plunge into the elections as we stand now. As I have said repeatedly, the council will be based on the 7 April meeting of the heads of the parties (which declared that there will be mutual respect for the individual policies of each party). The important thing is for the four parties to cooperate and win so that the LDP does not maintain a majority.

[NIHON KEIZAI SHIMBUN] What are your views on political reconstruction?

Doi: With the reversal of the government and opposition parties in the upper house, we have reached a political turning point, and under such circumstances, many movements have begun. However, the JSP is firmly united. I do not know what everyone thinks in detail, but since I have been saying that the four opposition parties will unite and work to form a coalition government, I believe that I have a responsibility toward the people, and I will work sincerely and in good faith to realize that goal.

[NIHON KEIZAI SHIMBUN] How will you deal with tumultuous international conditions?

Doi: With an end to the cold war, the establishment of a system of global coexistence has become a major issue. The world is watching to see how Japan uses and mobilizes its economic power. There is still no basic legislation for official development assistance (ODA), and this is no longer a domestic issue, it is an international issue. I have received invitations from countries all over the world, and after the elections, I plan to consider how to realize these visits. As for the pending matter of a visit to South Korea, if circumstances allow it, I will try to use JSP Secretary General Yamaguchi's visit to South Korea to establish a good course.

Democratic Socialist Party (DSP) Chairman Nagasue: Call for Emphasis on "Everyday Life"; Aim for a Trustworthy Government

[NIHON KEIZAI SHIMBUN] How do you plan to fight this battle?

Nagasue: I will firmly insist on abolition of the consumption tax, whose fate has not been resolved by the Diet, and a new reform of the tax system in 2 years. I will fight by calling for policies to improve the "everyday life" of citizens, such as rectification of the disparity in wealth, reduction of the cost of living, and improvement of the white collar worker's situation with respect to land and housing.

This is a crucial election in order to bring about a change in power, and I will call for policies that will form the backbone of the kind of government that the DSP wants, such as and end to the cold war, East-West detente, development of the global economy, and protection of the global environment. Our goal is 40 Diet seats, but if we go above the number of seats (26) we had last time (the simultaneous elections in 1986), we can say that we have won.

[NIHON KEIZAI SHIMBUN] It is said that you are wavering on the handling of the consumption tax issue.

Nagasue: There is no change in my policy of seeking abolition of the consumption tax and a revamping of the tax reforms. However, if the opposition parties are unable to gain the majority in the lower house, the power ratio among the government and opposition parties in the upper and lower houses will be warped and the existing legislation will stand, which is the worst possible situation for the people. If that happens, the LDP should take responsibility and submit a new, realistically reviewed tax reform proposal.

[NIHON KEIZAI SHIMBUN] What are your views on political reorganization?

Nagasue: The reversal of the positions of the government and opposition parties in the upper house will continue for at least 6 years. On that premise, considering the way that the budget and bills are handled, can we manage with the present framework of political parties? Unless the four-party coalition of the JSP, the Komeito, DSP and USDP can win a majority in the lower house, they will not be able to utilize the majority that they hold in the upper house, and the Diet will be unable to be productive as far as results are concerned. If the LDP cannot win a majority, there will be great upheaval within the LDP and in the JSP, and there will be a restructuring of the political arena. I do not want to intervene in the internal affairs of other parties, but I would like to hold discussions on an equal footing with any group that proposes that we work together to build a government that the people can trust.

[NIHON KEIZAI SHIMBUN] What is your perception of international affairs?

Nagasue: East-West confrontation definitely will disappear in the Asian-Pacific region, although not as quickly as in Europe. The government and the LDP continue to maintain diplomatic policies that are premised on confrontation, but that is wrong. I will observe the degree of progress in detente and, in cooperation with the United States, I will make efforts to bring peace to Asia. Most of all, Japan has a responsibility to bring about peace on the Korean peninsula. In the election campaign, I will appeal to the people about national security.

[29 Dec 89 p 2]

[Text] **Japan Communist Party (JCP) Chairman Fuwa: Eliminate Exclusion of the JCP; Eliminate the Roots of Indirect Taxes**

[NIHON KEIZAI SHIMBUN] How do you plan to fight this battle?

Fuwa: Our biggest goal is to deprive the LDP of a majority and create a Diet that can abolish the consumption tax. I will advocate total eradication of money politics and prevention of liberalization of rice imports, and I will call for a rich and peaceful Japan where the people are the masters. To make the LDP a minority party, the JCP must greatly increase its current 27 seats.

[NIHON KEIZAI SHIMBUN] How will you deal with the consumption tax?

Fuwa: The people have turned down three large-scale indirect taxes: the general consumption tax, the sales tax and the consumption tax. We voted against the alternate revenue sources bill in the extraordinary session of the Diet because of our position that what happens after the consumption tax is abolished, including the matter of appropriations, should be considered when the next budget is formed. The new reforms of the tax system proposed by other opposition parties contain kindling to relight the fire of large-scale indirect taxes. At the special Diet session, our emphasis will be to ensure that the roots of large-scale indirect taxes are not left behind.

[NIHON KEIZAI SHIMBUN] The argument that communism is bad has emerged from the turmoil in Eastern Europe.

Fuwa: What broke down in Eastern Europe was the Soviet type of bureaucratic system, which is devoid of sovereign independence, freedom and democracy. I am convinced that the movement toward democratization that we are seeing in Eastern Europe right now confirms what our party has been asserting all along. The LDP, while misgoverning the country, raises the problems of foreign countries in order to wound the JCP, and this is strictly a ploy to evade the real point of contention.

[NIHON KEIZAI SHIMBUN] If neither the LDP nor the four-party coalition of the JSP, the Komei Party, DSP and USDP can win the majority, the JCP will hold the deciding vote.

Fuwa: We are not trying to get the deciding vote. We are asserting that the most realistic solution is the formation of a partnership of the people and a provisional coalition government by groups that can agree to abolish the consumption tax, wipe out money politics and oppose liberalization of rice imports. The argument for excluding the JCP is an obstruction to this. The JSP broke the united revolutionary front agreement and concluded an agreement to exclude the JCP, so it is in a trap of its own making, but in the 1990's, questions will be raised, including by the other opposition parties, about the severing of that tie.

United Social Democratic Party (USDP) Representative Eda: Put an End to the Consumption Tax; Change in Political Power Is a Global Trend

[NIHON KEIZAI SHIMBUN] What will be your appeal?

Eda: Most of all, the abolition of the consumption tax. It has been approved by the upper house, but it was defeated by the LDP in the lower house, where the LDP is entrenched in the seats that it won 3 years ago. I want to settle this matter. The establishment of new political systems, as can be seen in the crumbling of one-party control in Eastern Europe, is a global trend, not just in the communist bloc. The USDP has six official candidates, but we will do what little we can to advance the cause of the opposition parties as a whole.

[NIHON KEIZAI SHIMBUN] What will you do about the consumption tax?

Eda: The four-party coalition's winning the majority and abolishing the consumption tax are not fantasies by any means. If the LDP fails to hold on to half the seats, even if conservative non-affiliates are supplementary official candidates, it will not be as easy as before. What will happen if they continue to demand abolition of the consumption tax? Ultimately, even if the LDP maintains the majority, a conclusion to abolish the tax is possible. However, if the people issued a conclusion against abolition, we would have to reconsider the matter.

[NIHON KEIZAI SHIMBUN] What about political reorganization?

Eda: It must improve Japanese politics. One-party control was to blame, and we will not approve any reorganization which will allow it to continue. Anything that would destroy it is worth serious consideration. We should not limit ourselves by rejecting anything at this time. However, basically, political reorganization means reorganization of the opposition parties into a highly concentrated, social democratic political force.

[NIHON KEIZAI SHIMBUN] What is your prediction for politics in the 1990's?

Eda: It will be interesting after the elections. It has started to feel like political change will be a reality, and it is possible that power will be transferred after the current four opposition party coalition is reorganized. In 1990, the decade's political trends will be set. In any event, since confrontational politics will not work anymore, there probably will be progress in politics through consultation. The future is opaque until we see the election results, but it is not an unpleasant opacity. It is a year filled with excited anticipation about what will emerge.

[30 Dec 89 p 2]

[Text] **Liberal Democratic Party (LDP) Secretary General Ozawa: Consider the Options for the System; JSP, Komeito and DSP All Are Possible Partners**

[NIHON KEIZAI SHIMBUN] What are the points of contention?

Ozawa: The main point is the system, what to do about Japan's political system, and whether political control by JSP-Komeito-DSP would be acceptable or would it be better under a system led by the LDP.

[NIHON KEIZAI SHIMBUN] It is said that you will resign if the LDP loses the majority in the lower house as well.

Ozawa: It will make no difference. If we fall below a majority, the theory of the responsibility of the party that is comparatively the top party will be put aside, and there will be a real shift in power in favor of JSP-Komeito-DSP. When it comes time to decide what to do about the consumption tax, they say, "abolish it." Therefore, in an international society that is rapidly changing, is it a mistake for Japan to choose a political system in which there is no unity on basic policy? That is the choice.

[NIHON KEIZAI SHIMBUN] In any event, there probably will be a coalition government after the elections.

Ozawa: It is too early to talk about a coalition at this time. Since the loss of the majority in the upper house will continue for 10 years or more, the opposition parties have half the responsibility for deciding how to lead Japan as we face the 21st century. After the election, the government and opposition parties must talk seriously and come up with a political system.

[NIHON KEIZAI SHIMBUN] Will your partner be the Komeito?

Ozawa: That will not necessarily be the case. The fact of the matter is that after the election, I think that there will be difficulties because of U.S.-Japanese relations, changes in Eastern Europe and U.S.-Soviet relations. Not even the JSP can get by with its present idealistic theories. We will consult with all the parties—JSP, Komeito, DSP—not just a specific party.

[NIHON KEIZAI SHIMBUN] How about again revising the consumption tax revisions?

Ozawa: That is going into a discussion of individual issues. There is no sense in doing that until there is full debate on what to do in the 1990's.

[NIHON KEIZAI SHIMBUN] What do you see happening in the 1990's?

Ozawa: Liberalization in the Soviet Union and Eastern Europe and friendly relations between the United States and the Soviet Union are good, in and of themselves. Will anything good come out of it for Japan? There will be very strong criticism that Japan does not do what it can, or that all it does is make money. Japan will be driven hard to respond and to make decisions. There are always ironic twists in history, where political instability occurs at the most critical times.

[NIHON KEIZAI SHIMBUN] What about the shift from one generation to the next?

Ozawa: If you mean that the shift in generations, as commonly used, means that people a little older than us will be gone, I disagree strongly. To say that now that 58-year old Mr. Kaifu has become prime minister, we cannot have anyone older in the future is really missing the point. Whoever is farsighted and can make the right decisions should work hard and do the job.

Komeito Chairman Ishida: Campaign Against "the Evils of One-Party Control"; Partial Coalition Is Out of the Question

[NIHON KEIZAI SHIMBUN] What will be your campaign?

Ishida: The struggle between abolition of the consumption tax, as approved by one house of the Diet, and review by the government and the LDP. Political reform that incorporates reflection upon the Recruit incident. The fact that, in inverse proportion to Japan's tremendous economic growth, the dream of working people to own their own homes is ever receding and politicians must take the responsibility for this. I will campaign against the distortions caused by the many years of one-party control. I also want to stress countermeasures for our aging society.

[NIHON KEIZAI SHIMBUN] All hope is gone for a pre-election agreement by the opposition parties coalition council.

Ishida: I do not think so. The JSP, which should assume leadership, has been making progress, such as efforts to revise its policy on South Korea, revising its bylaws and searching for realistic responses to issues. Considering that, progress is possible. However, it must not be too hasty. It is important to make efforts to make some progress, and the question will be whether the people will show understanding of that.

[NIHON KEIZAI SHIMBUN] What about the consumption tax?

Ishida: If there is a reversal between the government and opposition parties, it will be abolished with no problem. If not, the government and LDP must take to heart the importance of the decision of one house of the Diet that it should be abolished, and they have the responsibility to come up with a new response based on that. It will depend on what the party in power proposes.

[NIHON KEIZAI SHIMBUN] There is speculation that the LDP and the Komeito will become much friendlier in order to get political control after the election.

Ishida: That is not true. The root cause of various political evils is the long one-party control by the LDP. The foundation of democratic politics lies in change-overs in power, and we do not subscribe to the idea that it is sufficient to simply join forces with any party to stabilize political conditions. Stability based on one-party control would be absolutely meaningless. The Komeito is united on the opinion that the partial coalition theory of former Prime Minister Takeshita is out of the question.

[NIHON KEIZAI SHIMBUN] What do you think about political reorganization?

Ishida: The era of a reversal between government and opposition parties has arrived, and the possibility of a two major party system also has emerged. I think that any combination that is set up in order to achieve a form of stability similar to one-party control would be absolutely meaningless. Our basic stance is that the four opposition parties now are trying to form a coalition council. That stance will not change until we ascertain the results of that effort.

[NIHON KEIZAI SHIMBUN] How will you deal with international affairs?

Ishida: Now that there has been a reversal between the government and opposition parties in the upper house, the opposition parties must bear some responsibility for dealing with international affairs, and I want to develop an active policy in this area. After the election, I want to send party delegations, with my own participation, to the United States, the Soviet Union, China and South Korea, and to Eastern Europe as well. We will send a delegation to Romania next spring.

'Growing Talk' About Post-Election Cooperation

OW1301004990 Tokyo JIJI in English 1339 GMT 12 Jan 89—FOR OFFICIAL USE ONLY

[Text] Tokyo, Jan. 12 (JIJI PRESS)—With a general election expected next month, talk is growing about some sort of post-election cooperation or even coalition between the ruling Liberal Democratic Party (LDP) and opposition parties.

The looming fear for the LDP, which lost its upper house majority last July, is that it may also lose control of the more important lower house.

"If we lose, we'll get out of power," a long-faced party leader said. "If we win, a situation to be recorded in (Japan's) postwar political history will be created."

The LDP now has 109 of the 252 upper house seats against the non-LDP camp's 143.

Control in the upper house enables the opposition to block the passage of ordinary bills at least until the summer of 1992 when one-half of the upper-house seats will be up for election.

Under the Japanese Constitution, the lower house has the final say on such issues as passing a budget, ratifying treaties with other countries and naming a prime minister.

Former Deputy Prime Minister Shin Kanemaru even predicted that the upper house will remain under opposition control for 12 years.

The LDP is approaching opposition parties to forestall its stalemate in the Diet.

Last December, for example, former Prime Minister Noboru Takeshita proposed a "partial coalition" with the Komeito (Clean Government Party) and the Democratic Socialist Party (DSP), envisaging the two middle-of-the-road parties agreeing to vote with the LDP on some issues and not on others.

Subsequently, Kanemaru announced his scheme seeking cooperation between the LDP and the Japan Socialist Party (JSP), the number one opposition party, in the upper house.

But the LDP is being cold-shouldered because of the 3 pct consumption tax which the ruling party supports and the opposition parties oppose.

Komeito Chairman Koshiro Ishida said his party would never link up with the LDP.

Since the beginning of this year, Ishida has kept saying that the post-election political situation will have "three poles"—the LDP, the JSP and the middle-of-the-road force—because negotiations to form a coalition between the three opposition parties and the tiny United Social Democratic Party (USDP) appear likely to end in vain.

DSP Chairman Eiichi Nagasue also considers it difficult for the opposition parties to agree on their coalition, but he takes a different approach to the LDP's linkup proposal.

On the assumption that the LDP will split if it fails to hold on to its lower-house majority in the coming general election, Nagasue said during his visit to East Europe last December that the DSP will join hands with reform-minded LDP politicians and right-leaning JSP members.

Understandably, the JSP is reviewing its plan to take power through an opposition coalition. It stresses that the proposal for the LDP's partial cooperation with the Komeito and the DSP is aimed at supplementing its one-party rule.

To frustrate this scheme, JSP leaders intend to step up cooperation with the ruling party in the short term but have a long-term goal of re-unification with the DSP and the USDP using the Japanese Private Sector Trade Union Confederation (Rengo), an emerging political force, as common support base.

Under these circumstances, growing numbers of LDP politicians are becoming pessimistic about cooperation with the opposition.

A senior member of the biggest intra-LDP faction led by Takeshita said that another general election in addition to the coming one may be needed to create strong LDP-opposition cooperation.

But time is not on the LDP's side. For example, a supplementary budget for this fiscal year and related bills must be passed by the end of March so that the government can keep paying salaries to its employees.

The LDP can independently get the budget through a special Diet session to be convened after the election, probably in late February, but the opposition can block the passage of the relevant bills if they decide not to cooperate with the ruling party.

Nagasue Rules Out Possibility of Coalition

OW2301063890 Tokyo THE DAILY YOMIURI in English 21 Jan 90 p 3—FOR OFFICIAL USE ONLY

[Excerpts from a "recent" YOMIURI SHIMBUN interview with Eiichi Nagasue, chairman of the Democratic Socialist Party—fourth in a series of five]

[Text] Whatever the outcome of the upcoming elections, the Democratic Socialist Party will not form a coalition with the Liberal Democratic Party, DSP Chairman Eiichi Nagasue said in a recent interview with THE YOMIURI SHIMBUN. Nagasue also suggested the Japan Socialist Party adopt a more realistic outlook to pave the way for a coalition between the opposition parties.

Excerpts from the interview follow.

Question: How does the DSP plan to appeal to voters in the House of Representatives election campaign?

Nagasue: First of all, we'd like to emphasize that this is an election in which we can change the face of national politics and the national administration. As for specific policies, we are calling for the abolition of the Consumption Tax and the implementation of tax reforms within 2 years. We must create a new and fairer taxation system through cuts in income tax and a review of taxes on assets.

Q: What are the DSP's campaign issues other than taxation?

Nagasue: We promise to work to reduce high prices and to address the housing shortage, a matter of importance for salaried employees in urban areas. Also, we don't view national security as an exclusively military issue. Instead, now that the Cold War is ending, and the world is entering an era of East-West cooperation, security should be discussed in conjunction with our overseas economic assistance.

Q: Officially, the DSP says that before an opposition coalition government can be formed, the parties must agree on basic policy including how to evaluate the Japan-U.S. Security Treaty and the Self-Defense Forces. Many members of your party, however, say it is impossible to expect a realistic approach from the JSP under Chairwoman Takako Doi.

Nagasue: The JSP's basic policies have changed since the House of Councillors election last July. But we expect much more. The JSP has to take further steps. We will continue to seek agreement with the basic policies with the JSP.

Q: Do you think there is a good chance that the LDP will lose majority control of the lower house?

Nagasue: I don't think people's feelings about the consumption tax have changed to "THE LDP reform plan is OK." People who believe that Japan must be a democracy that reflects popular demands will not vote for the LDP. I think there is a good chance that the ruling party will be defeated.

Q: While in Eastern Europe, you hinted that the DSP will maintain flexibility regarding the LDP's consumption tax revision proposal in case the ruling party should retain a majority in the Lower House. Can you elaborate?

Nagasue: I don't think we need to talk about what we would do before the election. How to deal with the consumption tax is a matter for debate after the election.

Q: It is generally believed that former Prime Minister Noboru Takeshita had Komeito and the DSP in mind when he made his remark about a possible "partial coalition" with the opposition. What do you think of the prospect?

Nagasue: During our campaign, we will emphasize wresting Lower House control from the LDP. We can offer 100 percent assurances that the DSP would not join hands with the LDP, even if the latter loses majority control.

Q: The DSP is in a tough position. In light of that, what is your target in the next election?

Nagasue: Our long-cherished hope is to send 40 members to the Lower House as we did when the party was inaugurated 30 years ago. At the least, our goal is to win 26 seats as we did when general elections for both upper and lower houses were held simultaneously in 1986.

Farmers Distrust LDP Agricultural Policy

OW2001143690 Tokyo JIJI in English 1242 GMT 20 Jan 90

[Text] Tokyo, Jan. 19 (JIJI PRESS)—The coming election for the lower house of the Diet, or parliament, will serve as a referendum on the ruling party's plans to revise the controversial 3 percent consumption tax introduced in April 1989 as part of Japan's tax reform package.

The consumption tax was one of the four-point set of evils that led the Liberal Democratic Party (LDP) to a stunning defeat in the upper house election last July. The other three were the Recruit influence-peddling scandal, agricultural market liberalization and then Prime Minister Sosuke Uno's alleged womanizing.

After much fussing, the shocked LDP mapped out plans to revise the tax law in a desperate attempt to lure back voters. But a leader of the League of Women Voters of Japan says, the essence of the consumption tax will remain the same even if it is partially revised.

Claiming that the proposed revision will increase the allegedly unfair burden the consumption tax imposes on low-income households, the opposition parties intend to step up calls for abolition of the tax in their election campaigns. Nevertheless, some opposition politicians take what they say is a more pragmatic stance on the tax question.

A senior member of the Democratic Socialist Party [DSP] says that it is worth studying the LDP proposal because opposition-sponsored bills to abolish the tax will not get through the Diet if the ruling party holds on to its lower house majority in the general election, which is expected to be held on Feb. 18.

According to a leader of the Komeito (Clean Government Party), Shin Kanemaru, a former deputy prime minister who exerts a great deal of influence on party affairs, might propose a two-year freeze on the consumption tax in a bid to lure the Japan Socialist Party (JSP), the biggest opposition party, into a coalition with the LDP. The tax not only is the biggest campaign issue but also could change the fabric of Japanese political life.

The Finance Ministry, architect of the tax, is working hard to win popular support for the LDP's proposed revision stressing that the tax is necessary to carry out reform of Japan's tax system. It will distribute one million pamphlets explaining the revision to local finance bureaus and offices by the end of this month. As well, ministry officials are visiting consumers' and women's groups which strongly oppose the consumption tax.

The ministry plans to end such public relations activities before the general election is formally announced, probably on Feb. 3, in order to avoid being criticized for helping the LDP's election campaign. Desperate to woo voters before the election, the LDP is scurrying to polish its tarnished image on welfare issues.

Fearing a voter backlash, the party has delayed passing some pending parliamentary bills, notably one to raise the age of eligibility for employee pensions from 60 to 65, and another to increase the share of medical costs borne by aged persons. The ruling party has also successfully forced through substantial increases in budget appropriations for the Health and Welfare Ministry in fiscal 1990.

Part of these increases will be used to fund a 10-year strategy to promote health and welfare for the aged mapped out by the LDP to ease popular discontent with the 3 percent consumption tax imposed last April. At a total cost of 6 trillion yen, 360 billion of it to be spent during the coming fiscal year, the LDP's strategy aims to ready Japan for the rapid aging of its population. Specific measures in the plan include the training of 100,000 home helpers and the building of special-care accommodations for 240,000 aged persons.

According to the LDP, opposition parties' claims that revenues from the unpopular consumption tax are not funding welfare programs are no longer valid. Opposition politicians disagree, calling the LDP's new strategy a red herring intended to divert attention from the tax, and criticizing it for doing little to resolve basic policy issues related to the graying of the population.

The DSP says the LDP's program is simply electioneering and will be dropped the moment the government finds itself strapped financially. The JSP points to the lack of any proposals guaranteeing state care for the bedridden. The Komeito highlights the need for an additional pension plan for families caring for aged members.

All opposition parties stress the need to increase job opportunities for the aged. Employment is a critical issue in an aging society, they claim, and the government and LDP must find practical solutions to this problem.

Mitsugu Horiuchi, president of the Central Union of Agricultural Cooperatives (Zenchu), says the ruling party's big loss is unlikely in the upcoming lower house election. Young farmers no longer rebel against the LDP as they did in the upper house election last July, says the leader of the powerful farm lobby.

LDP politicians have every reason to heave a sigh of relief from Horiuchi's view. Japanese farmers have kept the LDP in power for more than 40 years, the longest one-party rule of any modern democracy. The farmers deserted the ruling party in the election for the upper house as they felt betrayed by LDP politicians who they said had bowed to U.S. pressure and agreed to removed restrictions on a host of agricultural products such as beef and oranges. Farmers then feared that Japan's ban on rice imports would be the next concession to the United States.

Since its stunning electoral defeat last July, the LDP has been striving to win back support from farmers. We have tried to remove distrust in our agricultural policy and made clear that Japan will maintain complete self-sufficiency in producing rice, says Agriculture, Forestry and Fisheries Minister Michihiko Kano. I hope our efforts will be duly appreciated (by farmers).

The LDP's efforts included a big boost in budget appropriations for promoting rural economies in fiscal 1990 starting April 1. The agricultural budget gives us a bright outlook for the 1990s, Horiuchi of the Zenchu says. But many farmers remain skeptical about the LDP's farm policy. A Hokkaido farmer says, the promise to maintain the self-sufficiency in rice is merely a campaign strategy. And his view is shared by many other farmers.

In fact, a survey report released by the Zenchu last November testified to farmers' persistently strong distrust in the LDP's agricultural policy. At a meeting of the agriculture ministers of five major industrial democracies earlier this month, U.S. Secretary of Agriculture Clayton Yeutter stressed that the Uruguay round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) would not end unless the question of Japan's rice import ban is settled.

Startled by Yeutter's unexpected statement, Kano emphasized at a press conference after his return home that Japan would continue advocating self-sufficiency in rice. The question is how many farmers, if any, would believe his and other LDP politicians' pledge to not let in rice from abroad.

The LDP felt relieved late last year as the U.S. Government accepted Japan's request for postponing the third round of the so-called Structural Impediments Initiative, or SII, talks scheduled for Jan. 16 and 17. The SII talks, which began last September, are aimed at settling the two countries' structural problems in order to reduce Japan's bilateral trade surplus, which exceeds 50 billion dollars a year.

Apart from the officially announced purpose of the structural negotiations, Washington hopes to demonstrate its earnest efforts to reduce the huge U.S. trade deficit with Japan and ease protectionist pressure in the U.S. Congress, which is gathering steam ahead of off-year elections in November. Had the third round of the SII talks been held as scheduled, Japan would have faced a barrage of U.S. demands that it do something quickly to reduce the bilateral trade imbalance.

The ruling party feared that such a predicament would add fuel to voters' anti-LDP sentiments, and thus LDP Secretary-General Ichiro Ozawa late last year told senior Foreign Ministry officials to postpone the SII talks until after the general election. The United States readily complied with the Japanese request, knowing that the pro-U.S. LDP will fight against heavy odds in the election. Washington has so far avoided exerting strong pressure on Japan ahead of the election. For example, it deferred trade retaliation against Japan's construction industry under Section 301 of the 1974 U.S. Trade Act.

Besides, bilateral talks on trade in forest products, satellites and supercomputers, three areas targeted under the so-called Super 301 provision of the 1988 trade act, appear unlikely to make major turns before the election. Super 301 allows for retaliation against countries identified as unfair trading partners.

The LDP's strategy not to make Japan-U.S. trade friction a campaign issue seems to have succeeded. But Washington's get-tough trade policy toward Japan has made the Japanese feel victimized and has brewed anti-U.S. sentiments here.

With domestic interest in bilateral trade disputes reaching an unprecedentedly high level, the upcoming election will enable Japanese voters to give their verdict on the LDP's concessionary trade policy aimed at maintaining amicable Japan-U.S. relations.

Kaifu, Abe 'Election-Time Diplomacy' Viewed

OW2001032990 Tokyo THE JAPAN TIMES in English 19 Jan 90 p 18—FOR OFFICIAL USE ONLY

["Opinion" column article by Kenzo Uchida: "Election-Time Diplomacy"]

[Text] Domestic matters gripped Japan's political world in 1989. There were the Recruit shares-for-favors affair, the controversial consumption tax, and the Upper House election in July in which the ruling Liberal-Democratic Party [LDP] lost its majority.

The year 1990 has opened with the spotlight focused on active involvement in the diplomatic field. Prime Minister Toshiki Kaifu visited Europe between Jan. 8-18, and Shintaro Abe, former LDP secretary general, visited the Soviet Union from Jan. 13-17, leading an LDP delegation.

China's State Planning Minister Zou Jiahua arrived here on Jan. 16 following the lifting of martial law in Beijing on Jan. 10. On Jan. 18 Koichiro Matsuura, director general of the Foreign Ministry's Economic Cooperation bureau, flew to Beijing for talks with the Chinese on economic cooperation between our two countries.

The "diplomatic season" has arrived, so to speak. However, it should be noted that domestic politics were very much in the minds of Kaifu and Abe when they made their overseas trips.

First, they—meaning the government and the LDP—wished to demonstrate to the people their diplomatic achievements with a general election expected in February or just around the corner. Second, the trips amounted to a preliminary skirmish between Kaifu and Abe for the postelection leadership.

Like his predecessors, Prime Minister Kaifu made his overseas trip to score political points at home. It is an old trick of Japan's political leaders to try to use their diplomatic performance to their advantage in domestic politics. Kaifu squeezed his European visit into a busy schedule covering the compilation of the fiscal 1990 government budget late last year, the ceremony of the first anniversary of Emperor Showa's death on Jan. 7, and the expected dissolution of the Lower House for the general election next month.

Visits to the European Community nations are customary. Prime Minister Kaifu added Poland and Hungary to express Japan's support for their democratization efforts and also to make a commitment of economic assistance. He wished to show the world that as an economic power Japan is prepared to assume a greater international role and the accompanying responsibility. He hopes that this will also be helpful to his party to win the general election.

The Abe-led LDP mission to the Soviet Union had a similar aim by raising with the Soviets matters of national concern in Japan like the Northern Territories issue.

The results of the February election will show whether Kaifu and Abe were successful. What compounds the situation is that the Kaifu and Abe trips produced the negative image of their personal ambitions and rivalry, rather than leading tc a plus for the government and the LDP.

As already mentioned, Prime Minister Kaifu made his European trip in a very tight political schedule. Abe, for his part, had expressed his strong wish to the Soviets to visit their country since last autumn. Bringing about the return of the Northern Territories and thus a new turn in Japan-Soviet relations is a major task of Japan's diplomacy.

Power slipped past Abe due to his suspected involvement in the Recruit affair and a hospitalization. The younger Kaifu became prime minister instead. Abe wishes to see the Kaifu government retire soon after the general election and he himself become prime minister to form the next government.

There is even a view that Abe timed his Soviet trip to coincide with Kaifu's European visit with the aim of lessening the effect of the prime minister's trip. It is said that it was for this purpose that Abe took along with him key LDP figures like Keizo Obuchi, former chief Cabinet secretary (from the Takeshita faction), Mutsuki Kato, former agriculture minister (of the Abe faction), and Toshio Yamaguchi, former labor minister (Nakasone faction).

Prime Minister Kaifu's European trip was goodwill diplomacy. In contrast, Abe's Moscow visit had a punch. He raised the Northern Territories issue in his talks with President Mikhail Gorbachev, who also confirmed his intention to visit Japan in the spring of 1991 if there are no problems in the way.

Who will be the ultimate winner? The answer depends largely on the outcome of the coming general election. Will Kaifu be able to keep his hold on the reins of government, or will an Abe government emerge?

Kaifu Stresses Party Unity for Election Victory

OW2201051790 Tokyo THE JAPAN TIMES in English 21 Jan 90 p 1—FOR OFFICIAL USE ONLY

[Text] Prime Minister Toshiki Kaifu, speaking Saturday at the annual convention of the ruling Liberal-Democratic Party, called for strong party unity to enable the LDP to prevail in the forthcoming general election, expected on Feb. 18.

"Let us face a verdict of the (voting) public vigorously when the party is going through the toughest crisis since its foundation," Kaifu said as party president.

Kaifu, who returned home from an 11-day tour of Europe Thursday, stressed that the LDP's policy and its purpose are not in error.

Citing a drastic change in Western Europe, the prime minister said that the phenomenon is proving that values for freedom, democracy, and market economy, which the LDP stands for, are the right courses of action.

However, only about 120 LDP Diet members attended the convention held at the Hibiya Public Hall in Tokyo, apparently because other LDP members were already busy preparing for the election in their electoral districts.

The House of Representatives is expected to be dissolved Wednesday for the general election after the regular Diet session is resumed Monday. An official announcement of the election is expected to be made on Feb. 3.

In his speech, Kaifu defended the consumption tax, a major election issue, by saying that the nation would not be able to maintain its vitality unless the people are required to share burdens through the broadly based indirect tax.

Preceding the prime minister's address, the party's Secretary General Ichiro Ozawa delivered a speech, describing the general election as a "cruscial battle" for the party.

"Should our party suffer a defeat (in the election), the political situation would become unstable, throwing the nation's economy and society into confusion, while the nation would be isolated into the international community," Ozawa said.

Pointing to a chainging global political situation symbolized by the end of the postwar Cold War era, Ozawa noted that it is inevitable that Japan will face a situation where it needs to make grave political decisions in its foreign policy.

"In order to cope properly with the international situation, the stability of the domestic political situation is a precondition," the secretary general said.

It is an imperative task for the LDP to carry out self-reform in a determined manner, he noted, adding that the party is determined to squarely tackle with such problems as tax reform, agricultural policy and urban issues, including high land prices.

Later in the convention, the party approved its basic policy outlines for this year, which emphasize promotion of political reform.

* Kaifu's Job To Halt LDP's Downhill Slide

WA0201024490 Tokyo ASAHI JOURNAL in Japanese 29 Dec 89 p 89—FOR OFFICIAL USE ONLY

[Unattributed article: "Zooming in on Kaifu"]

[Text] At the end of the Uno administration, remarks were often heard to the effect that "we should not elect a person to be prime minister or a leading official unless that person has striven to become one." This same remark is now being heard inside the Liberal Democratic Party (LDP).

This was triggered by Prime Minister Kaifu's handling of the tax reform issue, and questions regarding the Lower House dissolution and the general election. The prime minister initially asked the LDP Tax Affairs Research Council to eliminate all taxes on food. However, when the prime minister found out that Shin Kanemaru, the chairman of the Takeshita faction, was in favor of reducing the food tax rate from 3 percent (in force at present) to 2 percent, the prime minister started to lean towards Kanemaru's view.

The result of the tax review, however, ended in a half-measures bill, reducing food taxes to "1.5 percent on production and wholesale, and exempting all retail taxes." When the review was completed on 1 December, Kanemaru was very unhappy, and said to a key Takeshita faction member: "Kaifu's leadership ability is 'zero.'"

On 6 December, reporters asked the prime minister: "According to press reports, the election date has been set for 18 February next year. Is this true?" The prime minister answered angrily: "It has not been decided yet. Did you make up the date? I didn't." Chief Cabinet Secretary Moriyama conscientiously met with the press that evening and said the prime minister had asked her: "What in the world is going on?"

The prime minister's aides defend his actions, saying: "The prime minister is honest." But in the political world, a "honest" politician may not be a competent one. A wise prime minister would probably not reveal his true intentions, but would take credit for decisions made by acting as if he made all the decisions.

The prime minister, who has a weak foundation within the LDP, tries to display his leadership, but exposes his lack of it.

Consequently, there is an opinion within the LDP that even if the LDP wins in the general election, the Kaifu administration will not last too long. Key members of the Takeshita faction, which supports the Kaifu administration, say: "Prime Minister Kaifu will last until the first part of next year. His role is to stop the downhill slide in the LDP's popularity." The other factions are also increasingly worryed about the prime minister's ability to deal with Japan-U.S. relations, which are expected to become strained by next spring.

Since the general election is the most "pressing" matter at present, the moves surrounding the prime minister are not too visible, but the situation is serious.

LDP Fund-Raising Efforts for Election Viewed

OW2101050690 Tokyo ASAHI EVENING NEWS in English 19 Jan 90 p 6—FOR OFFICIAL USE ONLY

[Unattributed "Political Spectrum" column article: "LDP Arm-Twisting To Raise Funds"]

[Text] The ruling Liberal-Democratic Party's [LDP] plan to raise a 30 billion yen war chest for next month's Lower House election is focused on booming industries—automobiles, electrical machinery and electronics, construction. The party is practically exacting "special contributions" from these industries.

The LDP made a formal request for 5 billion yen to the Japan Automobile Manufacturers' Association (JAMA) last November. The request had been preceded by various kinds of pressure applied by the ruling party. Members of the LDP automobile lobby, normally the defenders of the industry's interests, exxpressed strong dissatisfaction in an Oct. 17 meeting with industry leaders.

"Why didn't the auto industry executives clearly come out in favor of the consumption tax in the July Upper House election?" said former Chief Cabinet Secretary Masajuro Shiokawa. "Many LDP Diet members are angered by the auto industry's attitude about the consumption tax," said Tamisuke Watanuki, chairman of the lobby's tax committee.

The automobile industry stood to benefit handsomely from the repeal of the commodity tax in exchange for the consumption tax last April. Shoichiro Toyoda, president of Toyota Motor Corp., thanked the LDP for the change at the meeting held at the party headquarters.

In what appeared to be another pressuring tactic, supposedly inside information was circulated by LDP sources and sources at the Ministry of Intenational

Trade and Industry. One piece of such information had it that former Deputy Prime Minister Shin Kanemaru and LDP Secretary-General Ichiro Ozawa were talking of raising the consumption tax on automobiles from 6 percent to 9 percent. Another had it that Hiroshi Mitsuzuka, chairman of the LDP Policy Board, was proposing an export surcharge on automobiles and Seiroku Kajiyama, former minister of international trade and industry, was calling for some other new tax for the auto industry, like a road tax.

About the time when the formal request for 5 billion yen was made, an LDP Diet member told an auto industry leader: "When it comes to a choice between paying several hundreds of billions of yen in revived commodity taxes and putting up 5 billion yen for the party, which is better for the industry?"

JAMA has been contributing about 1 billion yen a year to the ruling party through the Federation of Economic Organizations (Keidanren). The request for 5 billion yen meant that it would have to give five times as much in addition to the normal 1 billion yen. Furthermore, the Political Funds Control Law imposes a 100 million yen annual ceiling on the money a company can donate.

Although JAMA promised cooperation to raise 5 billion yen, an industry-wide consensus has yet to emerge. If the money is to be raised in the same way as the regular contributions, Toyota and Nissan Motor Co., the "Big Two" automakers, will each put up about one-fourth of it, with Honda Motor, Mazda Motor and Mitsubishi Motors shouldering about 10 percent each. The seven other JAMA member companies will also pitch in.

But some auto executives other than those of Toyota and Nissan say they have not given their consent to the 5 billion yen donations. "I'm not sure if we will be able to fulfill our share even if we allocate some of it to our subsidiaries," one says.

The electrical machinery and electronics industry has also been asked to contribute 5 billion yen. However, because of resistance put up by member companies, the industry association was able to promise slightly less than 4 billion yen.

Hajime Sako, president of the Japan Federation of Construction Contractors' Associations, was summoned to the LDP headquarters by Secretary-General Ozawa in the middle of last November and was asked to donate 3 billion yen. He promised cooperation, but later learned that the members of his federation alone cannot meet the request and those of another industry organization will have to be asked to pitch in.

Under these circumstances, a list of would-be donors and amounts allocated to them is being turned over to the LDP, so that it will be able to collect contributions on its own.

The ruling party has also asked other industries for "special donations," such as banking, securities, life and damage insurance, and oil. A sum of 3 billion yen is being sought from the banking industry. There are prospects that "special donations" are likely to total 14 billion yen to 15 billion yen.

The LDP has an additional 7.7 billion yen coming from Keidanren in regular contributions for the first half of this year. Moreover, it has borrowed about 13 billion yen from banks.

Editorial Comments on LDP Political Strategy

OW2101221590 Tokyo ASAHI EVENING NEWS in English 20 Jan 90 p 6—FOR OFFICIAL USE ONLY

[ASAHI SHIMBUN editorial: "Just Who's in Charge Here?"]

[Text] An ordinary session of the Diet was called and the prime minister has prepared to make a speech on his administrative policy. Yet the governing party prevents him from delivering the speech—that is an unheard-of irregularity.

If we are forced to look for similar cases in the past, we find an instance in 1976 in the wake of the Lockheed scandal when then Prime Minister Takeo Miki, who wanted to dissolve the House of Representatives, was driven to the corner by attempts by the Liberal-Democratic Party (LDP) members to drag him down from the premiership. That involved bickering over whether the prime minister should resort to his trump card of his constitutional right to dissolve the Lower House.

Attempts to thwart Prime Minister Toshiki Kaifu's wish to take the parliamentary rostrum are simply appalling.

We have repeatedly insisted that the prime minister make an administrative policy speech and the representatives of opposition parties make interpellations on it in order to make issues clear before the general election. The LDP is about to defy the due process of parliamentary politics. The LDP's manner of giving only subsidiary priority on rightful procedures in politics in that way is sure to be subjected to harsh criticism by voters at the election.

The primary reason why the ruling party shys away from discussion in the Diet is that likely grillings by opposition members on the Recruit scandal and newly uncovered stock dealings by a close aide to former Prime Minister Yasuhiro Nakasone will not be in the interest of the governing party. We are flabbergasted by such remorseless expediency.

One of the significances of the coming election is to settle a political account on the Recruit scandal. However hard the LDP tries to cover up, it cannot run away from questions of ethics in politics. Why doesn't it make an honest apology to the public and give their world for mending their ways?

The other reason is the aim on the part of influential party members to take the initiative from the prime minister in the political forum after the general election by stopping him from making his administrative policy speech. If that is really the case, what exactly is Toshiki Kaifu to the LDP? Is he simply party head in name only and nothing more than a book cover that can be replaced at will?

A party leader's existence is not that insignificant. Citizens determine their images of political parties and judge the policies of the parties by the words and actions of the party leaders. Not allowing the leader of the party the opportunity to speak is nothing more than a restriction on the choices available to Japanese citizens.

Although Kaifu did become prime minister through consultation between the major factions in the LDP, he was supposed to have been selected through an open election involving Diet members in order to avoid the same rut that brought down the previous Uno government in less than three months. Treating such a party leader irresponsibly is evidence that the LDP is managing politics only on the basis of internal party sensibility without considering ordinary citizens at all.

The question of what Kaifu means to the LDP must also be asked of Kaifu himself. The prime minister expressed his displeasure at being left out of the decision on the date to hold elections in February. On top of that comes the latest maneuver to stop Kaifu from giving his speech in the Diet. This may be a cruel way of putting it, but where exactly does the authority of the party president and prime minister lie?

We cannot understand Kaifu's virtual withdrawal of his desire to give the speech when he said during his recent visit to Europe that the date for dissolving the Diet should be decided after deliberations between the ruling and opposition parties, implying his consent to its dissolution before he has a chance to give a policy speech. It is said he agreed to the majority opinion of the LDP in order to remain prime minister after the elections, but his decision seems to indicate that he is also taking parliamentary politics lightly.

Kaifu was able to become prime minister because there was the possibility that he would reduce the distance between Japanese citizens and politics through his youth. The prime minister should rely on the support of the citizens and not support within the LDP. However, he will not be able to gain that support unless he himself puts up a fight. He should remember the persistent efforts by his mentor, Miki, who sought out signatures at an extraordinary Cabinet meeting that was held for many hours in order to dissolve the Diet.

The opposition parties must also bear partial responsibility for the "hazy dissolution."

What is particularly incomprehensible is the Clean Government Party's (Komeito) early call for a quick dissolution without parliamentary deliberations. Why did the Komeito decide to lend the LDP a hand when the other opposition parties were all demanding interpellation by party representatives? Some people hold the view that there is a secret pact between the Komeito and the leadership of the LDP concerning the management of politics after the elections. The Komeito should clearly state its reasons.

JPS Criticizes Kaifu Remarks on East Europe

OW2201130490 Tokyo JPS in English 0937 GMT 22 Jan 90—FOR OFFICIAL USE ONLY

[Text] Tokyo Jan 21 (JPS)—Tetsuzo Fuwa, chairman of the Presidium of the Japanese Communist Party, on January 20 issued a statement, entitled "Kaifu's Remarks on Eastern Europe Situation Criticized—Let Us Dismiss the Intention, Turn the People's Eyes Away From Points at Issue (in the General Election) and Give a Strict Verdict on Misgovernment." Gist of Fuwa's statement follows:

1) Prime Minister Toshiki Kaifu, addressing the 52nd convention of the ruling Liberal Democratic Party [LDP], took up the situation in Eastern Europe as the biggest historic change in the world, saying that "ineffective controlled economies and the terror politics of socialism and communism has created a big wave to seek freedom, democracy and the market economy." Utilizing this to praise LDP politics, he went on to say that the phenomenon in Eastern Europe "proves that the value and system, of freedom, democracy and the market economy, which the LDP chooses, are right."

2) What the present phenomenon shows is not the bankruptcy of socialism and communism but the bankruptcy of "Soviet-style socialism" and the hegemonic imposition of it on Eastern Europe. What is taking place, in the long-term, is a process of the independent and democratic construction of each country by breaking away from the "Soviet-style socialism."

As the party of scientific socialism the Japanese Communist Party has struggled for the defense of people's freedom and democracy and for democratic politics with sovereignty vested in the people, unyielding to every oppression and persecution, since prewar days when the LDP forces ardently supported despotism and militarism and suppressed the people's right. The JCP has also strongly criticized the Soviet Union for its great-power chauvinism and hegemony.

Bearing in mind the history and activity of the party of scientific socialism in Japan. The Japanese Communist Party, rejects the false intentional propaganda of Prime Minister Kaifu in which he aims to equate developments in Eastern Europe towards independence, freedom and democracy with the bankruptcy of socialism.

The original cause and movement of socialism was based on respect for the independence of each people and for complete freedom and democracy for people including the principle that sovereign power resides with the people. The present situation in the Soviet Union and Eastern Europe is only the bankruptcy of "Soviet-style socialism" and its followers who have neglected the original cause and principles.

3) It is a selfish argument for Prime Minister Kaifu to link the situation with the "rightness of the value and system which the LDP chose".

First, "freedom and democracy" are not the monopoly of capitalism. They are what has been won by humanity in the capitalist era. But it is easy to understand that they were not automatically produced by capitalism, if one recalls the various struggles and sacrifices of the Japanese people which have been needed for over 80 years since the Meiji restoration to establish democratic politics in Japan in which sovereign power is vested in the people. The Japanese Communist Party is proud to have made a specific basic contribution to the historic struggle of the Japanese people to win freedom and democracy. It is natural that these valuable achievements should be developed in future. The JCP has consistently made clear this principle and the perspective.

In addition, it is an extremely simple argument and proves his ignorance of laws of the development of society that Prime Minister Kaifu puts the market economy in the same category as capitalism, describing the Eastern Europe countries' stress on the importance of the market economy as a victory for capitalism.

Second, now that he said that the "values and system" which the LDP chose is freedom and democracy, it should be said that this remark represents opposite of the actual situation. The 35-year long LDP dictatorship by political reaction and corrupt politics has infringed the principle of the people's sovereignty and undermined politics based on parliament. It has created a serious situation in which the people's living standards and rights, plus peace and security are threatened. A typical examples of this are the LDP Kaifu cabinet daring to maintain the consumption tax, expanding political fund donations by enterprises and the liberalization of rice imports, ignoring the overwhelming majority verdict of the people (in the House of Councilors election last summer).

4) The lesson which the Japanese should learn from the situation in Eastern Europe is to end the LDP's dictatorial politics which serve big business and the United States, and to establish true democratic politics which can be worthy of saying that "the people are the masters". This is the point at issue in the political battle in Japan, including the forthcoming general election.

Prime Minister Kaifu and the LDP, arbitrarily utilizing the situation in Eastern Europe and other foreign countries, aim at turning the people's eyes away from the point at issue. They even dodge a fair debate and do not have the premier's policy speech and the party representatives' questioning of it before the dissolution of the House of Representatives. The Japanese voters of good sense will not allow such fraud. The Japanese Communist Party will make every effort so that the maladministration of the LDP will be strictly judged by the people.

JCP Airs Views on Abe-Gorbachev Talks

OW1801130090 Tokyo JPS in English 0915 GMT 18 Jan 90—FOR OFFICIAL USE ONLY

[Text] Tokyo Jan 18 JPS—Tetsuzo Fuwa, chairman of the Presidium of the Japanese Communist Party [JCP], criticized the Abe-Gorbachev talks for having failed to spell out the territorial question.

On the talks held in Moscow between Shintaro Abe, former secretary general of the Liberal Democratic Party [LDP], and Mikhail Gorbachev, president of the Supreme Soviet, Fuwa said:

"It is surprising enough to hear that Mr. Abe himself in a press statement said that he had not used the words 'territorial questions'. According to a newspaper, 'both sides' did not use the words 'territorial questions'. This means that nothing was said clearly. If the LDP says that the talks reached an understanding, it is the typical LDP way. If these reports are correct, the stretched link between Gorbachev's words 'sovereign right' to the territorial questions would turn out to be a 'castle of sand'."

Fuwa said this in a press conference on January 17, in Sapporo, Hokkaido.

JCP Protests U.S. Jets Flying Over Okinawa

OW1301112690 Tokyo JPS in English 0912 GMT 13 Jan 90—FOR OFFICIAL USE ONLY

[Text] Tokyo Jan 13 JPS—On the U.S. fighters narrowly escaping mid-air collisions with civilian airliners on January 10 and 11 over Okinawa, the Japanese Communist Party [JCP] filed a protest at the Transport Ministry.

The protest was conveyed to Naha Air Traffic Control Department of the Transport Ministry by Saneyoshi Furugen, Presidium member of the JCP and JCP members of the prefectural assembly.

To ensure safety, Furugen strongly demanded investigation into the cause of the abnormal nearing and preventive measures. For the fundamental resolution of accidents like these, he said that the system of giving priority to military affairs under which the U.S. Forces are allowed to designate any time training areas shutting out civilian planes, in addition to the existing 15 training areas, should be rectified. The JCP Presidium member said that the military/civilian common use of Naha airport and the control by the U.S. Forces of air over Okinawa, after 18 years of the return of administration of Okinawa to Japan, should not be condoned.

AKAHATA of January 13 reported this and other news related to U.S. bases.

On the accident of a U.S. military truck loaded with gunpowder rolled sideways [as received] on January 10, Nago (Okinawa Pref.) City Assembly on January 12 convened an extraordinary session and unanimously adopted a resolution calling for the halt of various training of the U.S. Forces and the withdrawal of bases.

Prior to the adoption of the resolution, the assembly was reported [as received] that Nago city authorities failed to take steps for the control of safety as required by law, when the truck was loaded by some 34 kg of TNT. The JCP criticized the city authorities for having failed to respond unflinchingly to the U.S. Forces acting as if they were still the occupation forces.

In the night of January 11, Akita regional meteorological observatory and the prefectural committee of the JCP received many telephones [as received] from the citizens of many cities and towns in the prefecture wondering if the roaring sounds they heard were caused by an earthquake or a plane crash. The first phone came at 8:59 p.m., when no quake was observed.

It is the first time that the sounds of roar and shock are heard at night in winter.

That day training of F-16 nuclear attackers were going on from 5:30 a.m. till after 8:00 p.m. at U.S. Misawa Base. The roars are suspected to have been caused by the night training of F-16s, giving out sonic boom whenever their speed surpass sonic speed.

On January 12, the Akita prefectural peace committee phoned a protest to the headquarters of the 432nd Tactical Air Command of the U.S. Air Force at Misawa Base and issued a statement of protest.

The protest also criticized the Transport Ministry for giving free hand to U.S. military aircraft, different from the Japanese Air Self-Defense Force whose planes have a duty to make prior notice for training at low altitude or at supersonic speed. The statement stressed that a sovereign state must not condone this.

JCP Official on Romanian Decision Outlawing RCP

OW1601110290 Tokyo JPS in English 0916 GMT 16 Jan 90—FOR OFFICIAL USE ONLY

[Text] Tokyo Jan 16 JPS—Hiroshi Tachiki, chairman of the International Commission of the Japanese Communist Party [JCP], on January 13 issued a statement on the Romanian authorities' decision to outlaw the Romanian Communist Party [RCP]. The statement was carried by the January 14 issue of AKAHATA which reported the decision of the Romanian National Salvation Council [NSC]. The next day, on January 15, AKAHATA gave its top front page to a report that the Romanian NSC has withdrawn the "hasty" decision to outlaw the RCP, before the criticism from the people.

The JCP statement of January 13 says:

1) Ion Iliescu, chairman of the Romanian National Salvation Council, on January 12 announced a decision to outlaw the Romanian Communist Party. He said the decision was made on the grounds that the RCP had been captured by the Ceausescu dictatorship, and degenerated into a total serving his anti-people dictatorship and political demagogy, and on the grounds that the RCP was incompatible with the national spirit and historical tradition of Romania.

2) The Romanian National Salvation Council, which has assumed power after the fall of the Ceausescu regime, forming the provisional government until a free election scheduled for April, has set out on democratizing the country and improving the people's living. On January 4, it announced the policy to have a new constitution providing for the fundamental human rights and respect of freedom, and separation of three powers, as well as an election law providing for a free election of universal suffrage, equality, direct voting, and secrecy, and a policy guaranteeing participation of all political forces in the election.

Within the Romanian Communist Party, a voluntary group has become active seeking a rebirth of the party, fully supporting the program of the National Salvation Council. Admitting that the RCP has lost its credit completely because of the Ceausescu dictatorship, and based on self-criticism, this group has announced that it would take part in the new political system and a free election, as a new party which makes it its ideal and goal to build socialism on the basis of freedom and democracy. The Romanian National Salvation Council's decision to end death penalty with the execution of Ceausescu and his wife is a wise step which has relieved the would people from anxiety about the continuation of blood-shed reprisal.

3) The council's decision to outlaw the Communist Party of Romania is a bolt from the blue and not persuasive to those who have watched the Romanian developments with favor. It is also unscientific to set communism against democracy. Although it may be an event that occurred under the still confused conditions in Romania, it is incompatible with its own line and spirit for the Romanian National Salvation Council, which carries realization and development of political democracy, to exclude by an administrative decision a political party denying it a chance of working among the people and prohibiting it from participating in the election, without giving it an opportunity of being judged by the people. We cannot help saying that such an action would leave a root of serious question in the rebirth of Romania.

The Japanese Communist Party has expressed through Presidium Chairman Fuwa's statement and in other occasions, its heartfelt welcome to the fall of the Ceausescu regime, as a victory of the Romanian people, the sovereign of the country, and the hope that under the leadership of the new administration Romania will recover freedom and democracy and liberate itself from bloodshed and violence. In this capacity and from a viewpoint of universal political democracy, the JCP frankly points out problems included in the new decision of the Romanian National Salvation Council."

JCP Welcomes Cancellation of Romanian Referendum

OW1901125690 Tokyo JPS in English 0927 GMT 19 Jan 90—FOR OFFICIAL USE ONLY

[Text] Tokyo Jan 19 JPS—Hiroshi Tachiki, chairman of the International Commission of the Japanese Communist Party [JCP], on January 19 issued a statement on the Romanian authorities' decision to cancel a referendum scheduled for January 28 on whether Romania should ban the Communist Party and reinstate the death penalty. In the statement, the JCP expresses its support for the decision. The following is the statement:

1. The Romanian Council of the National Salvation Front on January 18 officially announced the cancellation of a referendum on the questions of making the Communist Party illegal and the reinstatement of the death penalty, which was scheduled for January 28.

2. The Japanese Communist Party as a party which wished the rebirth and democratization of Romania and has frankly expressed its opinion so that there may be no bills to pay in the future of Romania welcomes the Council of the National Salvation Front's decision. It was reported that public opinion in Romania strongly criticized making the Communist Party illegal, saying that it would be against democracy, which is quite natural. The January 18 decision is rational and reasonable, as the basis for progress towards political democracy and national reconstruction in Romania.

The Japanese Communist Party issued a statement in my name (AKAHATA January 14) on the previous decision of January 12 to outlaw the Romanian Communist Party [RCP], saying that it was unscientific in that it counterposed democracy to communism, and that is was contrary to the policy and spirit of the Council of the National Salvation Front, which upholds political democracy and its realization, and that it would leave a disastrous root in the rebirth of Romania. Regarding the subsequent decision to retract the first decision to outlaw the RCP and to put the question to a national referendum, the JCP issued a statement in my name (AKAHATA of January 18). It said that a national referendum on whether to make legal or outlaw a political party and decide on its freedom, on which democracy is based, dependent on a majority decision at a time are undemocratic in themselves. The JCP also welcomed the abolition of the death penalty as a wise action which would make the people in the world feel at ease and free them from the fear of continuous bloody revenge following the execution of Nicolae Ceausescu and his wife. The JCP has expressed the hope for the achievement of a Romania free from bloodshed and violence.

3. The JCP hopes that the Romanian Council of the National Salvation Front firmly adheres to the position of the latest decision and is consistent in its policy for the realization of political democracy and national reconstruction in Romania.

LDP Leaders Frustrating Proposed Naval Cutbacks

OW1301114890 Tokyo JPS in English 0903 GMT 13 Jan 90—FOR OFFICIAL USE ONLY

[Text] Tokyo Jan 13 JPS—AKAHATA of January 13 commented on an enthusiastic effort of Prime Minister Kaifu and former Liberal Democratic Party [LDP] Secretary General Shintaro Abe to back Gorbachev's proposal on a cutback in navy forces in the world. The paper said:

On January 11, when Mr. Abe met U.S. Ambassador Armacost, he expressed understanding to the latter who said that this is not a time for negotiations on a reduction in navy forces in the Asian and Pacific region.

On January 10, Prime Minister Kaifu who is visiting European countries met NATO Secretary General Woerner and told him that "the Asian and Pacific region is dependent on the deterrence of U.S. Navy force for its security. This is not an appropriate time for a cutback in navy forces to be negotiated. We must wait for the time when the movement for global disarmament has taken root."

These successive remarks by Messrs. Kaifu and Abe are serious in that they run counter to the world current for disarmament.

In accelerating a global disarmament it is a very important task for a maritime disarmament in the Asian and Pacific region to be promoted. In contrast to a disarmament progress in Europe, nuclear weapons, including deployment of "Tomahawk" missiles, in the Asian and Pacific region have been reinforced: The INF treaty is not applied to N-weapons in this region.

The United States sticking to its superiority in nuclear weapons has tried to exclude the long-range sea-based cruise missiles from the strategic arms negotiations (START). In the Malta summit, President Bush gave no definite answer to Gorbachev when the latter proposed a reduction in navy forces and sea-based nuclear weapons.

If Japanese leaders are to call for disarmament, it would be the minimum duty to press on the United States to accept the proposed reduction in maritime forces. In fact, they have emphasized the necessity for U.S. nuclear deterrence, trying to persuade European and Soviet leaders not to press for a maritime disarmament.

JCP Reiterates Need To End U.S. Military Alliance

OW1801130990 Tokyo JPS in English 0918 GMT 18 Jan 90—FOR OFFICIAL USE ONLY

[All quotation marks as received]

[Text] Tokyo Jan 18 JPS—Calling for the end of the Liberal Democratic Party's [LDP's] dictatorial politics and its replacement with democratic politics faithful to the people's will, the Japanese Communist Party [JCP] Presidium Chairman Tetsuzo Fuwa on January 17 published a statement. It again calls for a coalition of forces for the abolition of the consumption tax, aiming at the establishment of a coalition government.

The statement comprises the following five sections:

1) What lessons do we learn from the world trend?
2) LDP dictatorial politics has made Japanese politics corrupt and degenerate.
3) What has LDP dictatorial politics brought for the people?
4) The first step to overthrow dictatorial politics—for a people's coalition government based on the three demands including the abolition of the consumption tax.
5) Any change in the political and social system should be carried out with support of the majority of people and under coalition government.

The forth section says:

"The central task of the forthcoming general election is to end LDP dictatorial politics and to realize the urgent demands of the people. The LDP is proposing a coalition with a part of the opposition, but this is a mere tactic aimed at prolonging LDP politics with the help of some sections of the opposition.

"The JCP again proposes, its conception of a new government to replace the LDP government, the formation of a coalition of all forces which demand the completion of the following three urgent tasks, aiming at the establishment of a coalition government which agrees with the three tasks: the abolition of the consumption tax, the ban of political fund donations by companies, and the prevention of the liberalization of rice imports. In keeping with the foreseeable balance of political forces after the election, this is the only realistic way to form a government which would take the place of the existing LDP government.

The biggest obstacles to the establishment of a coalition government are the agreements, which exclude the JCP, which were concluded between the Socialist, Komei, and the Democratic Socialist Parties 10 years ago. The agreements say that the aim is to immediately form a government which takes the place of the one, but in fact these agreements provide for the 'exclusion of the JCP'. They prevent a coalition of the opposition forces based on the people's demands, and help the continuation of LDP politics. The JCP makes every effort to overcome these anti-communist agreements and to open the way to establish a coalition government faithful to the people's will. At the same time, the JCP earnestly appeals to all people who want the end of LDP politics and to open the way for democratic political change to put their energy into this task as a joint effort.

The fifth section says:

"That change and progress in government should be carried out a coalition government does not only apply to the currently proposed provisional coalition government, but has been a consistent policy of the JCP for a long period. [sentence as received]

"The JCP is struggling for the present regime to be changed and a new way for Japan to be opened up in the 1990s. And in its recently published campaign program for the forthcoming general election, the party put forward a policy for progressive change in national government—change which will make sure that "the people become the true masters of the country and build a prosperous and peaceful Japan." One of the important characteristics of this policy is the conviction that this change can be attained within the "framework of capitalism," viz., with the present LDP dictatorship being replaced by a new system under which the people will become the true masters: "choice between the systems of socialism and capitalism" is not in any sense a focal point of present day politics in Japan. Another is the policy of a united front and a coalition government: that any change in government should be carried out by a united front and a coalition government based on it, which will comprise all progressive and democratic forces supporting the three progressive objectives.

(Note) The three progressive objectives follow: (1) abrogate the Japan-U.S. military alliance, and build a truly independent, non-nuclear, non-aligned, neutral Japan; (2) end of the administration which serves the interests of big business and gives priority to the military buildup, and for a government which protects the people's lives and living standards, and education; (3) struggle against the plot for the revival and strengthening of militarism, as well as against Japanese-style fascism, and implement the democratic management of parliament and drastically improve democracy.

"With its original and principled position the party based on scientific socialism will devote itself to achieving the most important tasks of the people at a given time, bearing in mind the actual conditions in society and in the country, and to push ahead for the cause of social progress steadily step by step, securing the support and agreement of the majority of the people. In the prewar days the JCP made strenuous efforts to establish a democratic administration in which sovereignty would rest with the people, waging the struggle against the war and for peace. History proved that this position corresponded to the true interests of the people. In the postwar years, the party has engaged in the struggle to win the true independence of Japan and to make democracy permeate into the political, economic and social spheres, opposing the Japan-U.S. Security Treaty and other means which have made Japan subordinate to the United States, and the selfish control of big business and the major enterprises.

"The JCP declares that the following, along side pluralism and changes of the system through elections, will be its constant policy: never to establish a single-party government of its own no matter what stage of social progress has been reached in Japan and to stick to the policy of a united front and coalition government for all time.

* Shin Rengo Labor Confederation Described

902B0038A Tokyo SANKEI SHIMBUN in Japanese 16, 17, 18 Nov 89—FOR OFFICIAL USE ONLY

[Three-part series by Sumio Yamagiwa: "Tasks of 8 Million Strong Shin Rengo"]

[16 Nov 89 p 2]

[Text] **Part I: Challenge of Rebirth**

Will It Renounce the Mentality of Its Labor Origins?

The unification of the labor movement by the amalgamation of public and private labor unions, which is said to have been long sought after, has become a reality with the National Confederation of Trade Unions, also known as Shin Rengo. The inaugural conference was held in Tokyo on the 21st. The organization has 8 million members and represents the birth of the largest interest group in Japan, not to mention the history of the labor movement. This trend will probably force a reorganization of the Japanese political world, beginning with the Japan Socialist Party [JSP] and the Democratic Socialist Party [DSP], which take labor as their largest base of support, and which will involve the Liberal Democratic Party [LDP]. It will also have a large impact on the economy and the society. An item of concern for the nation is how Shin Rengo will bid farewell to the "Sohyo [General Council of Trade Unions of Japan] line," which was criticized as political excess. I examined the line and tasks of Shin Rengo to determine whether unification will lead to a curtain raising on a new labor era in fact as well as name.

The Executive Recommendation Committee, on the morning of the 15th, decided to recommend Japan Telecommunications Committee Chairman Akira Yamai to be Shin Rengo's chairman and Rengo Secretary General Seigo Yamada (who is an advisor to the Zensen Domei) to be Shin Rengo's secretary general. This led to a novel lively debate rather than the becalmed one with which it expected to accomplish its great task. The issue in focus was how to break away from a strictly "blue-collar (labor origins) mentality."

Among the comments were: "It is embarrassing that Shin Rengo seems to be a blue-collar amalgamation," and "We should demand that Shin Rengo does not incorporate a blue-collar philosophy."

Thus, bitter feelings were apparent from within the Recommendation Committee which had no choice but to choose the top executives of Shin Rengo from within the leadership framework of Sohyo-Domei [Japan Confederation of Labor].

At the same time, a member of the LDP leadership frankly grimaced about the appointment of Yamai, who goes by the sobriquet "political department director of the labor world," as the chairman of Shin Rengo, and said, "The result may be a swing to the left led by the Government and Public Workers Union [GPWU]. There will be no way to talk about such things as the budget with Shin Rengo."

The LDP had watched very closely the personnel in Shin Rengo as well as the government. Along with having its doubts about the backing of Sohyo and the GPWU as the reason behind Yamai's appointment as chairman, the LDP cannot hide its alarm about the birth of Japan's largest interest group with a membership of 8 million persons. Instinctively, the LDP is trying to keep Shin Rengo in check.

According to Rengo Chairman Toshiyuki Tateyama, labor has achieved "this dream of unity, which it has pursued for over these 20 years," just when this government and party in power are in an extremely tenuous state.

Shin Rengo consists of the 5.5 million workers in the current Rengo, which is a collection of private sector labor, 2.0 million government workers from Sohyo and the Yuai [Comrades] Congress, and 500,000 workers from the private sector who have never joined a union before.

The Communist Party's Zenroren (General Confederation of Japanese Labor Unions, which officially claims to have 400,000 workers) and the (Liaison Council of Japanese Labor Unions, which has the goal of 500,000 workers) are gathered here, but Rengo Chairman Tateyama, who followed his retirement from the frontline by serving as Unity Preparations Chairman, insists, "The birth of Shin Rengo is the completion of a historical stage in the history of the labor movement, which has been replete with antagonism and separations from morning to night. It will have a great impact on shaping public opinion."

Yamai, who has been appointed the first chairman, is brimming with self-confidence. According to him, "Shin Rengo will be a unique national center (central labor group). I will do all in my power to see that it has the strongest social, political, and economic impact in every field both at home and abroad." He is prepared to use its numbers to exercise influence.

However, according to a Rengo executive, "The social status of a labor union is first established by the movement obtaining the support of public opinion." The question will be what sort of movement will Shin Rengo build? The Sohyo-GPWU line, which turned the public into an enemy, by such actions as wage increases while ignoring productivity, strikes over the right to strike, and opposition to administrative reform, certainly does not have the sympathy of the people. Rengo's attitude toward the consumption tax, which was to race for its repeal, catering to what appeared to be public opinion, evoked a strong negative reaction from the white collar workers.

Because of such actions, the rate of organization of workers has continued to fall from its peak of 55.8

percent in 1949, and currently is just 12 million (26.8 percent) union members out of a labor force of 42 million workers. No more than two-thirds of those union members have joined Shin Rengo. Moreover, Shin Rengo's annual budget of 2.4 billion yen is not very large in comparison with the 14 billion yen of the Japan Telecommunications Workers Union and the 4.2 billion yen of the All Japan Prefectural and Municipal Workers Union.

Labor commentator Yoshiyuki Emoto points out, "Labor unions always attach their fate to representing the public, and the public casts aside that which has no power." Hence, he makes a special request to Shin Rengo to discard the "ancient mentality" of Sohyo and Domei and rush to build a movement that will evoke the sympathy of the people. The war to launch the rebirth of the labor community has just begun.

[17 Nov 89 p 2]

[Text] **Part II: Political Stance**

Criticism of the Politicization of the Labor Unions

The decision to disband Sohyo was made at a political meeting on the 16th and 17th of last month between Sohyo and the JSP, which was held at Akiu Hot Springs in Sendai. This sort of scene occurred at the banquet that evening. Tsuruo Yamaguchi and Makoto Tanabe, the JSP's current and former secretary general, left their seats of honor and made a pledge to one man after another, a total of close to 100 men in all, beginning with the chairmen of the prefectural Sohyo units.

Secretary General Yamaguchi, although considerably intoxicated, did not lose his serious demeanor when he said, "I need your assistance." Tanabe, who is said to be full of ambition to become the next committee chairman, said, however, "Makoto Tanabe is always in dire straits these days," which caused a stir in the gathering.

Sohyo went ahead to the Shin Rengo conference on the afternoon of the 21st, having formally dissolved that morning. The birth of Shin Rengo signified the end of the era of division in the labor movement, including Domei, the Federation of Independent Unions of Japan, and the National Federation of Industrial Organizations, which had already dissolved. This fact also spurred on the settlement of past support relationships between labor and political parties, such as the "Sohyo-JSP bloc" and the "Yuai Congress (Domei)-DSP bloc."

The Sohyo Center was established as the base of JSP support along with the disbandment of Sohyo, and Sohyo Executive Director Eikichi Makara emphasized at the Sendai gathering that "the Sohyo Center will have a transitional existence from 3 to 5 years at best," and sought unity with the JSP because of the piggyback relationship it has had up to now.

Signs of change of the political attitudes of the labor unions which have been watching closely the inauguration of Shin Rengo are emerging everywhere. The Japan Telecommunications Union, at its regular conference in September of this year, adopted a change in movement policy from solely supporting the JSP to opening the way to providing support to multiple parties. Even when it comes to DSP power, strong voices are rising seeking a review of support for one party from within the ranks of representatives to the congresses of Zensen Domei and the Federation of Japanese Metalworkers this past summer.

On the other hand, Shin Rengo courageously states (in its general principles and elsewhere) its own political role as "making every effort to form a new political force that can bear political authority," and "to serve the role of a catalyst to change the political trend."

However, what kind of scenario will concretely result in the gathering of enough political strength to replace the LDP cannot be predicted at all. With regard to how political parties will be supported, Shin Rengo is going no further, as in the past, than to "leave the matter to the individual member industrial unions." According to a Yuai Conference executive, the reason behind the forming of Shin Rengo is "to present an appearance of unity that will place in one pocket their differences of opinion on politics." However, the fact that changes of political awareness are proceeding among the younger union members cannot be overlooked.

A member of the Shunshukai [Spring and Autumn Group], which was formed by young labor movement leaders, declared boldly, "I support the LDP rather than an opposition party."

He goes on to say, "The labor unions have said that they share their fate with the opposition parties, but we rely on the LDP, which is the party in power. This is natural since we are working for the realization of industrial policy. We are joining in study groups with dietmembers from the LDP. We are even allied with the LDP when it comes to its political line."

In addition, the problem becomes even more complicated in the split of the assessment of Rengo's upper house members, which consists of 11 Rengo leaders elected to that house. At one time, they received great applause as leaders of a change between the party in power and the parties out of power, but criticism has become deeply rooted in the labor movement that "this will lead to the politicization of the labor unions."

Senshu University Professor Kimihiro Masamura, who is well-versed in the labor question, points out, "Moderation among the labor unions is necessary. A national center should make statements about the road down which Japan should proceed. However, under which party that will be realized is a separate matter. It is a mistake for executives, such as in Sohyo, to casually say that support should be given to the JSP and then force union members to heed that."

Nevertheless, Shin Rengo cannot avoid a full-fledged debate about political policy sooner or later as the LDP leaders have even declared that "an organization of 8 million members is enticing." It is fully possible that a dispute will develop on the best way for the labor unions and the political parties to proceed because Japan Telecommunications Committee Chairman Akira Yamai, who has been appointed the chairman of Shin Rengo, is someone who argues for the reorganization of the opposition parties with the reconciliation of the JSP and DSP as the linchpin.

How will Shin Rengo put in order the views of its member unions, who are a mixture of bewilderment, at a time when the political parties are giving the new federation amorous glances? It is certain that the discussions on political policy will become overheated since the recent unification drama.

[18 Nov 89 p 2]

[Text] **Part III: Policy Demands**

Line Focusing on Attaining a Better Quality Life

DGB is the nickname of Deutscher Gewerkeschaft [German Trade Union Federation], which is the national center of West Germany that Japanese labor unions refer to whenever the opportunity arises. DGB Chairman Breit and other executives visited Japan in October at the invitation of Rengo.

Chairman Breit was aware that Rengo, along with the opposition parties, was conducting a campaign to eliminate the consumption tax (the value added tax), and frequently inclined his head to one side. In doing so, he explained the current situation in West Germany, where the value added tax has been introduced, and questioned Rengo's attitude on the issue. He said, "Why are you opposed to the value added tax? The value added tax rate in my country is 15 percent, and 7 percent for food. We are accustomed to that. When EC integration occurs in 1992, this will probably have to be adjusted somewhat since the value added tax rates of the 12 member nations differ respectively."

Without hesitation, Rengo's Executive Director Seigo Yamada stressed how Japan's tax system has been an inequitable device since the Shoup tax system, but Chairman Breit would not accept that and refused to back down, saying, "If you eliminate it, what financial resource do you have for a substitute?"

Rengo, which marched ahead of others toward unification on the labor front and amalgamated the private sector unions, hoisted the slogan "power and policy" at the front of the movement taking as its basis an improvement in the quality of life for the white collar worker. It did this after reflecting on the excessive obsession with politics which was the special trait of the GPWU and other unions. Because of this, it established the Rengo Research Institute, the first independent think tank as a national center, carried out simulations of the economy when confronted with Shunto [the spring labor offensive], and was inspired to put together a realistic policy by making it a habit to hold regular consultations with various government offices, including the Ministry of Labor, the Ministry of Health and Welfare, the Economic Planning Agency, and the Ministry of Foreign Affairs.

From the outset, Rengo had a clear awareness that such an attitude was designed to extricate it from the "demand model" movement common to the opposition parties and the labor community. It can be said that Rengo adopted a position diametrically opposed to the orthodoxy that looks only at the wage rate figure to judge victory or defeat, without giving any consideration to the impact that the increase would have on the national economy, beginning with prices, and resulting, in the end, in a series of Shunto defeats.

Rengo's position on the consumption tax question remained the same. Rengo, stating that Japan's direct taxes, which were too high, resulted in putting the white collar worker at a disadvantage, demanded a correction of the proportion between direct and indirect taxes. Some of the Federation of Industrial Labor Union unions under its umbrella were dead set against this, but the majority of unions, said, as suggested in the Second Ad Hoc Council on Administrative Reform's report, that the mainstay of tax reform was a tax reduction of direct taxes by the introduction of new indirect taxes. Even in the case of the consumption tax, unions such as the Japan Telecommunications Workers Union, appealed for "reform" rather than "elimination" up to the spring of this year.

However, all this changed with the upper house elections in July. Accepting the new situation in which the JSP had won a great victory, Rengo suddenly moved swiftly toward elimination of the consumption tax.

All of Rengo's leaders said that this change was because "the outcome of the election represented a national decision on this." Rengo ventured to undertake together with the opposition parties to put together a financial resource plan to be enacted after the consumption tax had been eliminated.

Rengo acted way too hastily given the situation. The candidates that Rengo itself supported started to speak out on the elimination of the consumption tax and prevention of the liberalization of agricultural products, which were unrelated to Rengo policy, and unless Rengo confirmed those views, a question of responsibility would develop. With regard to pensions as well, which was an item of interest for the white collar worker equal to taxes, Rengo's bold voice was audible to "resolutely smash" [the current pensions].

Chairman Takuo Nakamura of the IMF-JC (International Metal Workers Federation, Japan Council) and who is a director of the Rengo Research Institute, strongly emphasized with regard to the value added tax, that "what is necessary is necessary," but such voices were drowned out by the chorus of "absolute opposition" and "determined obstruction."

Shin Rengo basically continues the line of Rengo, but since it has brought in Sohyo and the GPWU, which in the past were dead set against administrative reform, how will it attain the goals of the movement, which take into account the real [amalgamation] needs of the public? If it cannot accomplish this, it will turn out to be a great idea that does no good.

Editorial Criticizes Attack on Nagasaki Mayor

OW2101201590 Tokyo MAINICHI DAILY NEWS in English 20 Jan 90 p 2—FOR OFFICIAL USE ONLY

[Editorial: "Attack on Nagasaki Mayor"]

[Text] Mayor Hitoshi Motoshima of Nagasaki, who had earlier expressed his opinion before the municipal assembly that Emperor Showa "bore some responsibility for World War II," was shot on Jan 18.

The attack took place in front of the city hall and in broad daylight. The shooting is to be condemned. Mayor Motoshima was rushed by ambulance to Nagasaki Municipal Hospital, where he was reported to be in stable condition after a two-hour operation. Fortunately his wounds were not fatal and an early recovery is hoped for.

A member of the right-wing Seikijuku group, Kazumi Tajiri, 40, was arrested by the police about five hours after the shooting. Taken into custody at a hotel in Nagasaki, Tajiri was in possession of a handgun.

Immediately after the mayor made the statement about the emperor, four conservative and centrist factions of the municipal assembly called for a retraction of the remarks. The Liberal-Democratic Party [LDP] dismissed Motoshima as adviser to the LDP's prefectural federation.

Since then, Mayor Motoshima has been harassed. There have been incessant telephone calls and telegrams calling the mayor a "traitor" and demanding that he "go to hell." Rightists have ringed the city hall with sound trucks and blared slogans denouncing the mayor. An interview was sought by a man carrying a polyvinyl container filled with gasoline.

Whether Emperor Showa had responsibility for the war is a subject on which scholars disagree, but as in the case of other matters, it should naturally be open to free discussion. Among the Japanese people, however, there is a tendency to avoid discussing delicate subjects.

When interviewed by the MAINICHI SHIMBUN at the time, Mayor Motoshima said: "I wanted to be honest with my own conscience and beliefs." For his statement to have aroused such repercussions indicates that while freedom of expression is guaranteed by the Constitution, it is not yet deeply rooted.

For persons having different viewpoints to be able to express their own opinions freely is the foundation that supports a democratic society. If people become unable to express opinions, which some may support and others may oppose, what kind of a society can we expect?

Was it not Voltaire who said to an opponent that "I heartily disagree with what you say, but I will defend to the death your right to say it."

In the society of prewar Japan, the state exercised thought control. If someone sought, as Mayor Motoshima did, "to be true to one's conscience and beliefs," it could be dangerous. People could be punished for having "undesirable thoughts." There was also the danger of violence by extremists.

Freedom from such thought control and the right to express one's opinions freely were guaranteed by the new Constitution. This valuable freedom must not be jeopardized by terrorists.

The present society in which we live outwardly appears to enjoy freedom but is this actually so? The series of attacks carried out against the ASAHI newspaper constituted terrorism aiming to suppress the freedom of expression. The attack on Mayor Motoshima was also an attack on free speech and expression.

It should not be forgotten that ominous elements are lurking in the undercurrent of society. We do not want to see a return to the period when people were unable to give voice to what they wanted to say.

'Radical Attacks' on Imperial Family Viewed

OW1301012490 Tokyo THE DAILY YOMIURI in English 11 Jan 90 p 6—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 10 January editorial: "Leftist Rocket Attacks"]

[Text] The firing of homemade rockets at the residence of Prince Hitachi in Tokyo and the Imperial Palace garden in Kyoto Monday are incidents which should not be dismissed easily by either the authorities or public even though there was no serious damage or casualties.

Earlier on the day of the attacks, the committee to oversee the planning for the Emperor's enthronement ceremonies and the related Daijosai festival next autumn was inaugurated. For this reason, authorities blame the attacks on radical leftists.

There have been 68 cases of guerrilla activities aimed against the Imperial families. These include an incident in which a firebomb was thrown at the then-crown Prince and Princess when they visited Okinawa in 1975 to attend the International Ocean Exposition. Radical attacks targeted directly at the Imperial family members of facilities number 18.

We are concerned that the radicals may use advanced missiles with a range of four kilometers.

Peril of Escalation

We cannot take this violence lightly and should note that Imperial facilities are not the only targets. Security authorities must take action to stop any escalation of this terrorism in the future.

Security authorities have predicted that there will be an increasing number of violent attacks aimed at disrupting events involved with the enthronement ceremonies. The radical leftists hope by these actions to cause disorder in our society.

Whatever ideologies these people advocate, their terrorism is a challenge to law and order in Japan, and they stand no chance of winning public support through their violent activities.

If there is an outburst of these terrorist acts, foreign nations will gain the impression that Japan is an unsafe country not to mention the adverse effects to our own society.

Radical leftists claim that the Emperor system serves as the cornerstone for Japan's ruling class. This argument is nonsense.

Symbol of Unity

The Emperor is the symbol of the nation's unity, not the symbol of any group's power. It is an anachronistic argument to claim the Emperor system represents anything else.

The radical attacks Monday were a hard blow to security authorities. The incidents occurred on the very day when the Metropolitan Police Department formed a special headquarters to tighten public security prior to the enthronement ceremonies scheduled for November.

Increasing the number of police officers deployed for public security duties is not a measure which alone can stamp out the destructive antisocial activities of radicals. The most effective way to end this terrorism is to find their hideouts by diligent police work and arrest the terrorists and seize their weapons.

But police cannot carry out this task effectively without the cooperation of the public which can provide important information on the movements of radicals. Unfortunately, public indifference and apathy are helping the radicals to survive and thrive.

Scientists Confirm Room Temperature Fusion

OW2101183390 Tokyo ASAHI EVENING NEWS in English 20 Jan 90 p 7—FOR OFFICIAL USE ONLY

[Unattributed "Science" column: "Japanese Scientists Confirm Achievement—Confusion Over Fusion"]

[Text] A team of Japanese scientists says it has confirmed the achievement of nuclear fusion at room temperature, using a similar method as that of other researchers at a Japanese state-run university who late last year claimed they had achieved fusion.

Researchers at the National Institute for Fusion Science reported Jan. 10 detecting bursts of neutrons at a level 9-17 million times higher than that occurring naturally after sending a high charge of electricity through palladium rods that had absorbed deuterium gas.

The researchers said they have no plans to published their findings.

An emission of 450,000 neutrons was recorded during the first second, and 850,000 neutrons during the next, immediately after 12,000 volts of electricity was discharged through two palladium electrodes stuck into a glass bulb filled with deuterium gas, a heavy form of hydrogen that is twice the mass of a regular hydrogen atom, they said. Under normal conditions, 0.05 neutrons are freed each second.

"The emission of a large amount of neutrons, or evidence of cold nuclear fusion, has been confirmed through the use of a measurement system to accurately separate neutrons from electric noises," said Hideo Ikegami, a plasma physics professor who led the research team.

Though radiation is released when atoms are fused, Ikegami said the amount released in the experiment was low. He said the radiation was not measured because its detection was not one of the purposes of the experiment.

In November, Nagoya University researchers Nobuhiko Wada and Kunihide Nishizawa announced they had observed a one-minute burst of neutrons at a level 20,000 times higher than that found naturally.

However, some scientists called for confirmation by third parties because electric signals could be mistakenly interpreted as neutrons under the measurement device used in the first experiment.

One of them, Noboru Oyama, an electrochemistry professor at the Tokyo University of Agriculture and Technology, said Ikegami confirmed the achievement of nuclear fusion at room temperature by using a more accurate analyzer.

"We are greatly relieved as (the second experiment) has supplanted our defective findings," Wada said after hearing of the success of Ikegami's team.

Ikegami and his colleagues first pumped deuterium gas into a glass bulb 8 centimeters (3 inches) in diameter with two palladium rods inserted from the sides, until the pressure inside equaled that outside. The apparatus was left untouched so that the palladium electrodes would fully absorb deuterium. They then discharged 12,000 volts across the gap created by the two rods.

They said neutron emissions at levels millions of times greater than normal did not last after the first two seconds.

Nuclear fusion occurs when two atoms unite to form one heavier one, emitting neutrons and huge amounts of energy in the process.

The fusion process has wide-ranging practical applications, including that of a safer heat source than nuclear fission for generating electricity. An uncontrolled fusion reaction will stop, whereas a nuclear reaction will intensify.

Last March, Stanley Pons of the University of Utah and Martin Fleischmann of Britain's University of Southampton reported they had achieved nuclear fusion at room temperature.

U.S. Access to 5th Generation Computer Planned

OW1601102790 Tokyo NIHON KEIZAI SHIMBUN in Japanese 15 Jan 90 Morning Edition p 13—FOR OFFICIAL USE ONLY

[Text] The Ministry of International Trade and Industry [MITI] will make a test unit of the "5th generation computer," being developed for the realization of artificial intelligence, available to U.S. researchers through international telephone lines. This is in response to persistent requests by the Argonne National Laboratory and the National Institute of Health (NIH). MITI hopes that this will help alleviate technological friction. It is now discussing how to link the test unit to the U.S. side. The plan is expected to be implemented by April.

A test unit of the "Multi-PSI" [Personal Sequential Inference] will be made available to U.S. scientists. The new computer is composed of 64 "PSI" computers, which can give answers using human-like intelligence, linked together. The new computer can give answers at superspeeds because it is capable of dividing a problem into components and solving each independently. According to MITI, the United States wants to use the 5th generation computer in geneological research.

For this reason, the "New Generation Computer Technology Development Organization," which is developing the new computer, will make the Multi-PSI available through the U.S. academic research computer network.

Development of the 5th generation computer is a national project jointly undertaken by industrial, government, and academic sectors since 1982. The research project, which will end in 1991, is budgeted at Y30 billion.

Defecting Students on Possibility of Reform

OW1701092590 Tokyo SANKEI SHIMBUN in Japanese 15 Jan 90 Morning Edition p 3—FOR OFFICIAL USE ONLY

["Summary" of an interview with Kim Un-hak and Tong Yong-chun, North Korean students who defected to the ROK from Poland in May 1989, by SANKEI SHIMBUN correspondent Katsuhiro Kuroda in Seoul; students not identified individually—date not given]

[Text] Seoul, 14 Jan—SANKEI SHIMBUN's Seoul Bureau recently interviewed Kim Un-hak (24) and Tong Yong-chun (24), North Korean students who defected to the ROK from Poland in May 1989, on the possibility of liberalization and reform in the DPRK. During the interview, the students said, "The masses in the DPRK do not have basic freedoms. Even the concepts of human rights and democracy do not exist. Therefore, moves such as those taking place in Eastern Europe will be impossible for some time to come. If one criticizes the establishment, he and his family will be treated as social outcasts. People do not air their criticisms out of fear. If there is any possibility of change, it will come only after the death of (Chairman) Kim Il-song."

The following is a summary of the question-and-answer session with the two students:

[Kuroda] Is there any possibility for reform and democratization in the DPRK?

[Answer] We do not expect that. The concepts of freedom and democracy exist in Eastern Europe. The changes that occurred there materialized from demands from below. In the case of the DPRK, however, there is absolutely no basis for freedom and democracy. Moreover, information from the outside is shut out. Even liberalization and reform from above may be fatal for the establishment; thus, these concepts cannot be implemented.

[Kuroda] Is there not any discontent among the people?

[Answer] Yes, there is. Ordinary people are discontented with their daily lives because they want but do not have full stomachs. Students are discontented with their collective lives, which are controlled throughout the day, because they are permitted to do only those things that they are told to do. However, the problem is that they believe that the "middle tali (bridge)", or the common responsible officials and low-ranking leaders, are the ones at fault. Thus, there is no criticism of the establishment. Moreover, any criticism of the establishment, including discontent with Kim Il-song and his son Kim Chong-il, brings terror. We all know that if one criticizes the establishment, he and his family will disappear in no time. They will be sent to the "areas for targets of dictatorship (concentration camps)".

[Kuroda] Why did you defect?

[Answer] We went to study in Poland and came to know about "free choice." Although Poland also is a socialist country, individual choice is respected with regard to selecting the field of specialization in university, hobbies, and jobs after graduation, not to mention travel and books to read. On the other hand, there are no basic freedoms in the DPRK.

[Kuroda] Is there not any possibility of change?

[Answer] The younger generation has been educated from childhood to idolize Kim Il-song. Adults work as hard as they can to make their children party cadres. The party cadres hoard food, clothing, and daily necessities in amounts sufficient to meet the needs of their children and even their grandchildren. At the time of their graduation, students are busy seeking personal connections. With regard to change, we have heard that the successor, (Secretary) Kim Chong-il has many enemies within the leadership, and that he is not that popular among the masses. We believe that something might happen after Kim Il-song dies.

[Kuroda] Is outside influence unthinkable?

[Answer] We have been educated to believe that the Korean race is superior and that we should do things our own way. With the censorship of information, there is little interest in and influence from the capitalist countries. With regard to destinations for overseas students, the USSR used to be popular but China is preferred now, because there are many scholarships and one can bring many electric appliances and other commodities home. However, the influence of those who were educated in the USSR and Eastern Europe may grow gradually.

21 Dec Protest Rally in Ulaanbaatar Reported

PM2201161290 London THE INDEPENDENT in English 22 Jan 90 p 10—FOR OFFICIAL USE ONLY

[Report by Andrew Higgins in Ulaanbaatar]

[Text] In a cold that turned breath to an icy mist that almost tinkled, it seemed more a convention of chainsmokers than the most daring political rally in the 70-year history of socialist Mongolia.

With plumes of condensation as thick as smoke curling above thousands of fur hats, they gathered for nearly two hours in the Mongolian capital's replica of Red Square, dominated like the one in Moscow at one end by a granite mausoleum to the steppes' own version of Lenin: the founder of the second oldest socialist state, modern Mongolia's national hero, Suhbaatar.

Alternately stomping their feet to keep out the cold and waving mittened fists in the air, the crowd of more than 4,000 cheered and jeered as speakers of the Mongolian Democratic Union (MDU) explained why Mongolia, too, should join the rest of the communist world in embracing perestroyka not only in word but in deed.

The protesters were braving more than temperatures of nearly -30c. The rally was the fourth in the Mongolian capital since change first swept into Mongolia last December. Unlike previous gatherings, however, yesterday's had been banned in advance by the People's Revolutionary Party, which, having tacitly encouraged the initial zeal for reform, decided last week that events were moving too fast.

"They began by wanting to support perestroyka, to work for democratic change, to fight against mistakes and shortcomings," said a menacing article in the newspaper, UNEN, on Friday. "However, some members of the MDU express views that have nothing to do with restructuring and which are unacceptable." The article ended with a veiled threat: "If they continue to behave improperly it will be difficult for the party to consider they are supporting the people and the policy of restructuring."

But yesterday the party and its menace seemed as frozen as the air. Neither uniformed police nor the conspicuous bullies that pass for undercover agents were to be seen. The occasional soldier, of both the Russian and the Mongolian army (almost indistinguishable in identical long grey coats) strolled by, apparently unconcerned by such public defiance to authority.

It was a good-humoured if perilously close to frostbitten affair. Mongolia's first dissident rock band, Honk (which means "gong" or "bell") started off the rally—bringing new meaning to the phrase warm-up band. Undeterred by symbols of power on all sides of the central square where the protesters gathered, the urban elite of Mongolia and a sprinkling of herdsmen showed that they were ready for change.

"Our objective is to carry out profound political change in our country," shouted Zorig, the spokesman for the MDU, speaking to the crowd from a makeshift podium bedecked with the red and blue Mongolian flag. Other MDU leaders stood by and applauded, including a Buddhist monk from Mongolia's only "working" monastery—the authorities' delicate phrase to describe the only survivor from years of religious persecution.

A thin, intense, bespectacled man, the half-Russian, Moscow-educated Zorig talked with the cold rationality of one educated in the language he claims to want to overthrow; he has a diploma in and lectures on the "Theory of Scientific Socialism".

"We must begin perestroyka from the top down," he said, although he stopped short of calling for the resignation of Politburo members as some had done the previous week.

In front of him, the bobbing crowd waved banners of support, which echoed the same themes that have been captivating communist capitals from Beijing to Bucharest over the past year: "Freedom and liberty", "Human rights," "Stand up for your rights" and "Down with bureaucracy".

Mongolia, established as an independent socialist state in 1921, has been tied to Moscow since the start. Every political change in Moscow has its mirror image in Ulaanbaatar—for Lenin, there was Suhbaater; for Stalin, Choybalsan; and for Brezhnev, Tsedenbal. The question everyone is now asking is who will be Mongolia's Gorbachev. The current leader, a colourless, cautious reformer called Batmonh, is variously described as either Chernenko or Andropov. Few believe he has the right stuff to ride the changes the party itself has set in motion.

Hun Sen on Khmer Rouge Past, Early SRV Contacts

90OG0100A Paris LE NOUVEL OBSERVATEUR in French 21-27 Dec 89 pp 49-50—FOR OFFICIAL USE ONLY

[Interview with Hun Sen by Rene Backmann; date, place not given]

[Excerpts] [Passage omitted] The Cambodian prime minister replies here to questions by our special correspondent Rene Backmann and explains his own Khmer Rouge past. [passage omitted]

[Backman] Is it true that the villages of Pailin and Thmar Puok in western Cambodia are still in the hands of the Khmer Rouge?

[Hun Sen] Let's talk first about Pailin. That locality is hardly more than 10 kilometers from the border with Thailand. Pailin and its precious-stone mines have always been an important objective of the coalition. It is true that the fighting is continuing at Pailin. The fighting is also continuing at Thmar Puok, and it was near that village that our enemies just recently lost 300 men over a period of a few days. I should add that nobody has lived in Pailin since Pol Pot came to power in 1975. [passage omitted]

[Backman] If a negotiated solution is possible, what role could Sihanouk play in it?

[Hun Sen] The prince will have a role in a negotiated solution when he distances himself from Pol Pot and breaks with the Khmer Rouge. So long as he remains their ally, however, there will be no possibility of his returning to Cambodia. People must rid themselves of the illusion that the prince enjoys the total support of the Cambodian people. The Sihanouk of today is different from the Sihanouk of 1970 to 1975, when thousands of young people joined the guerrilla forces in response to his appeal. How many combatants does he have today, after 11 years of being allied to the Khmer Rouge? Very few, and he will not be able to reinforce his ranks so long as he remains allied to the Khmer Rouge. There is in Cambodia today a very strong movement in opposition not only to the return of Pol Pot but also to the return of Sihanouk.

[Backman] Is a solution without Sihanouk possible?

[Hun Sen] We can live, and move ahead, without him, although I must say that his return would facilitate national reconciliation and accelerate the reconstruction of our country. Having said that, however, let us make it plain that he is not the only key to a political solution; he is only one of the elements. One must not overestimate his importance, as France has done in the past.

[Backman] You yourself used to be a Khmer Rouge. Today, how do you explain that commitment?

[Hun Sen] Look, you have to distinguish between the war against the American aggression, on the one hand, and the genocide of the Khmer Rouge against the Cambodian people. My participation in the guerrilla war against Lon Nol from 1970 to 1975 was a fight not against democracy but against foreign aggression. I am not about to remind you that Sihanouk, too, was Khmer Rouge then, or that the resistance movement of which he had assumed command was Khmer Rouge. What is true is that subsequently the Khmer Rouge took advantage of that movement to seize the government. Let's be clear, now: if I'm accused of being Khmer Rouge, why isn't Prince Sihanouk accused of the same thing? I was only 18 years old when I responded to his appeal for guerrilla warfare against the Americans. If I was a small-scale Khmer Rouge, then Sihanouk was the king of the Khmer Rouge between 1970 and 1975. He is much more responsible than I for what has happened in Cambodia. But there is one other difference, a very important difference, between us: when I found out that the Khmer Rouge were betraying the people and democracy, I fought against them—and I am still fighting against them. Sihanouk, however, was an ally of the Khmer Rouge and still is.

[Backman] At what point exactly did you come to the conclusion that what the Khmer Rouge were doing was unacceptable and decide to oppose them?

[Hun Sen] I began to be troubled in 1974—that is to say, 1 year before the fall of the Lon Nol regime—but wasn't able to establish whether the decisions that shocked me had been made by low-level local cadres or at the level of the leadership. I asked myself a number of questions. I obviously wasn't going to join forces with Lon Nol or the Americans. I couldn't simply go back home, for they would have killed me. At that moment we were asked to liberate the cities. There ensued the offensive against Phnom Penh, during which I was wounded in the face on 16 April. The capital was captured the following day. I didn't regain consciousness until 24 April. I had lost an eye and was partially paralyzed. When I left the hospital, I realized that the capital had been depopulated. I subsequently found out that the decisions that had shocked me—and whose implementation I was witnessing—originated wholly with the leadership of the movement, and decided to oppose it. A political confrontation was impossible, however. The only thing left was to join the guerrillas, to go underground.

[Backman] Did you join the guerrillas with the intention of fighting alone, or did you already intend to appeal to the Vietnamese for assistance?

[Hun Sen] I at first believed it was possible to initiate an armed struggle against Pol Pot in the interior of the country, but it quite soon became apparent that we had no chance of winning a military victory. I then concluded that the best course would be to go over with all my forces—I had under my command a regiment of 1,000 men—to the Vietnamese side. It was quite risky; we had no relations with Vietnam. I therefore decided to leave the main body of my troops concealed in the bush and to cross the frontier with my officers to contact the

Vietnamese authorities. We crossed the border on 20 June 1977 at 0200 hours. We were on the march the entire morning and halted around noon. We cooked our rice and ate. We had brought our weapons with us. I gave the order to leave them there, and we resumed our march. At 3 o'clock we reached a village. None of us spoke Vietnamese. Fortunately, some of the residents had worked on the rubber plantations in Cambodia and spoke Khmer. We used them as interpreters. I shall long remember that village, because it was there that I had my first real meal after 2 years of famine.

Things were not quite that simple where the authorities were concerned. In fact, the Vietnamese at first refused to help us. They explained to us that they did not want to interfere in the domestic affairs of Democratic Kampuchea. I believe the real reason was that they didn't understand what was going on in Cambodia. It wasn't until tens of thousands of Cambodians had crossed the border and the Pol Pot forces had carried out several attacks against Vietnamese villages that the leadership began to understand what was happening on the other side of the border. [passage omitted]